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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 Through December 31, 2013 Complied with its Adopted Procurement Plan; for Verification of its Entries in the Energy Resource Recovery Account and Other Regulatory Accounts; and for Recovery of \$6.619 Million Recorded in Three Memorandum Accounts.

Application No. 14-04-006  
(Filed April 1, 2014)

**MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT BETWEEN  
SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND THE OFFICE OF  
RATEPAYER ADVOCATES**

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Dated: **August 14, 2015**

**MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT BETWEEN SOUTHERN  
CALIFORNIA EDISON AND THE OFFICE OF RATEPAYER ADVOCATES**

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**I.**

**INTRODUCTION**

Pursuant to Rule 12.1 *et seq.* of the California Public Utilities Commission's ("Commission" or "CPUC") Rules of Practice and Procedure, Southern California Edison Company ("SCE"), on behalf of itself and the Office of Ratepayer Advocates ("ORA") (referred to hereinafter collectively as "Settling Parties" or individually as "Party"), respectfully moves for the Commission to find reasonable and adopt the "Settlement Agreement Between Southern California Edison Company (U 338-E) and the Office of Ratepayer Advocates" ("Settlement Agreement"), which is appended to this motion as Attachment A. In accordance with Rule 1.8(d), SCE confirms ORA has authorized SCE to file this motion on its behalf. The Settlement

Agreement seeks to resolve all issues pending in the instant Application (“Application” or “A.14-04-006”).

Section II of this motion provides the procedural and regulatory background related to this proceeding. Section III describes in general the positions advocated by the parties in this proceeding and summarizes the terms of the Settlement Agreement. Section IV demonstrates that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest pursuant to Rule 12.1(d), and that it should be adopted without modification. The Settling Parties will be filing motions for submission of their respective written testimony into evidence pursuant to Rule 13.8(c) in the near future.

## **II.**

### **PROCEDURAL AND REGULATORY BACKGROUND**

For the complete regulatory history of this proceeding, please see Attachment A (the Settlement Agreement) at Article 1. SCE began settlement negotiations with ORA in January 2015, and thereafter properly noticed and held an all-party settlement conference pursuant to Rule 12.1(b) on August 14, 2015, to discuss resolution of this Application. This motion follows.

## **III.**

### **SUMMARY OF PARTIES’ POSITIONS**

The Settling Parties’ positions on the proposed revenue requirement and the issues in dispute are summarized herein.

#### **A. Many Of SCE’s Proposals In Its Application Were Not Contested By ORA**

SCE’s annual ERRR Review proceedings, including the instant application, encompass a wide range of ratemaking and regulatory issues. ORA’s Report, served on November 14, 2014, reviewed the issues SCE set forth in its application for review and approval. ORA also propounded, and SCE responded to, 502 discovery requests in this proceeding. After this review

and analysis, ORA either agreed with or did not take exception to many of the proposals in SCE's application and testimony. The Settlement Agreement makes clear that except as expressly modified by the Settlement Agreement itself, the Commission should approve all of the relief requested in SCE's Application, Amended Application, and various exhibits of supporting testimony.

**B. The Settling Parties Submitted Differing Testimony Regarding The Calpine Pastoria Power Purchase Agreement**

In testimony submitted on July 9, 2014 (Exhibit SCE-8), SCE explained that it had entered into a non-conforming power purchase agreement with Calpine Energy Services, L.P. (Calpine Pastoria PPA). SCE argued that the Commission should approve the Calpine Pastoria PPA and the costs should be fully recoverable in ERRR. While ORA agreed that the Commission should approve the Calpine Pastoria PPA, it recommended the Commission order SCE to institute a series of quality control process improvements to help avoid future contractual mistakes.

**C. The Settling Parties Disagreed On The Appropriate Showing For SCE To Make In ERRR Proceedings With Respect To The Calculation Of The Maximum Disallowance Cap For A Standard Of Conduct 4 Violation**

ORA recommended that the Commission require SCE to provide the Standard of Conduct 4 (SOC 4) disallowance cap amount, along with a showing of its calculation, in future ERRR application and testimony filings. SCE maintained that such a showing is not necessary because SCE already provides detailed supporting calculations and workpapers showing the SOC 4 disallowance cap when requested in discovery, and because the disallowance cap is only relevant if a party proposes a procurement-related disallowance.

**D. The Settling Parties Disagreed On The Appropriate Showing For SCE To Make In ERRA Proceedings With Respect To The Least-Cost Dispatch Of SCE's Generation Resources**

ORA recommended that the Commission direct SCE to include all dispatchable Demand Response (DR) resources in its annual Least-Cost Dispatch (LCD) compliance demonstration in ERRA, and recommended the adoption of DR-specific “metrics” for those showings. SCE’s Rebuttal Testimony (Exhibit SCE-13) acknowledged that there was a then-pending interim ruling adopting ORA’s recommendations regarding DR metrics for LCD compliance for the 2014 Record Period, but argued that the Commission should reconsider what constitutes appropriate treatment for DR resources in future years.

**E. The Settling Parties Disagreed On Certain SCE Showings Regarding Non-Qualifying Facilities Contract Administration**

ORA made four recommendations relating to SCE’s contract administration for non-qualifying facilities: (a) the Commission should accept SCE’s request for cost recovery for the Walnut Creek Affiliate Transaction; (b) the Commission should adopt the guidelines in D.90-09-088 for SCE’s reporting and review of its affiliate-owned non-PURPA Combined Heat and Power (CHP) projects; (c) the Commission should approve Transaction 1 of the tolling agreement between SCE and Dynegy Moss Landing; and (d) the Commission should order SCE not to include any issues requiring an after-the-fact reasonableness review in future ERRA compliance filings.

SCE explained that (a) it was not requesting “recovery” of any amounts made by SCE to Walnut Creek Energy during the Record Year; that (b) it agreed to use the D.90-09-088 reporting requirements for the review of its affiliate-owned non-PURPA CHP projects; (c) that the decision to execute Transaction 1 of the Dynegy Moss Landing tolling agreement and present it for review in this ERRA proceeding while using the advice letter process for the review regarding Transaction 2 was in SCE’s customers’ best interests; and (d) that the Commission

should reject ORA's recommendation to order SCE to not include any issues requiring an after-the-fact reasonableness review in future ERRR compliance filings.

**F. The Settling Parties Disagreed On The Appropriate Demonstration Of GHG Compliance Instrument Procurement In The ERRR Review Proceedings**

ORA recommended that SCE provide the following in future ERRR filings:

1. "an upfront demonstration that SCE's GHG compliance instrument procurement for the CARB Cap-and-Trade Regulation complied with D.12-04-046 and Resolution E-4542 in testimony."
2. "testimony that discusses: (1) the quantity of GHG compliance instruments procured for the Record Year and whether this amount was within the authority of its BPP; (2) where and how SCE procured the GHG compliance instruments and whether these purchases were within the authority of its BPP."
3. "appendices: (1) QCR GHG material; (2) PRG GHG material; and (3) a confidential copy of its BPP."

SCE disagreed with ORA's recommendations because it would result in a duplicative and inappropriate review process within ERRR. SCE already demonstrates compliance with its Assembly Bill (AB) Bundled Procurement Plan (BPP) and Commission procurement rules in its QCR filings. As directed by the Commission, through its QCR filings, SCE demonstrates that GHG compliance instruments comply with the upfront standards and criteria in SCE's BPP. SCE's 2010 BPP, as amended and approved in Resolution E-4542, incorporates the GHG compliance standards established in D.12-04-046.

**G. The Settling Parties Disagreed On The Appropriate Showing For SCE To Make In ERRR Proceedings With Respect To Utility-Owned Generation Outages**

ORA did not identify any instances in which SCE's Record Period Utility-Owned Generation (UOG) outages were allegedly imprudent or unreasonable. ORA also proposed a methodology for calculating replacement costs for UOG outages.



Subsequent to the submission of ORA's Report in this proceeding, and of SCE's Rebuttal Testimony, the Commission convened a workshop in SCE's 2012 Record Period ERRR Review proceeding (A.13-04-001). As a result of that workshop, SCE and ORA agreed to certain prospective changes SCE would make to its UOG showing, beginning with the 2014 Record Period.

SCE also argued in its Rebuttal Testimony that developing multiple pre-defined formulas for calculating UOG outages replacement costs was unnecessary and burdensome.

#### **H. SCE And ORA Disagreed On GHG Accounting Issues**

Regarding GHG cost accounting, ORA recommended the Commission require SCE to implement the following:

1. Accrual basis accounting.
2. Update/Correct inaccurate accounting books and records pertaining to GHG costs and inventory, through December 31, 2014.
3. Update/Correct all applicable balancing, memorandum, and other related balance sheet accounts.
4. Discontinue use of the following inappropriate accounts:
  - 2451035 - GHG Regulatory Liability.
  - 4601010 – Provision

SCE's Rebuttal testimony noted that in Phase II of A.13-08-002, SCE agreed, from 2014 *going forward*, that cost recovery of direct GHG costs will be based on GHG compliance costs in the year the GHG emission obligations were incurred, with interest for cash outlays to meet GHG procurement compliance costs. The emission expense and interest expense is to be recorded in the ERRR. This accounting change from a cash to an accrual basis was adopted in D.14-10-033, effective October 16, 2014. The Phase 2 Decision stated that "SCE shall use the accrual method for 2014 and shall make a one-time adjustment for prior years."

In light of the Phase 2 Decision adopting the accrual method of accounting for GHG compliance instrument costs, SCE argued that ORA's recommendation requiring SCE to update the ERRR and all other related balance sheet accounts no later than December 31, 2014 is now moot. In fact, in November 2014, after receipt of the October 16, 2014 Phase 2 Decision, SCE did exactly that: SCE switched to the accrual method for 2014 and made a one-time adjustment for prior years. In addition SCE discontinued the use of the 2451035 - GHG Regulatory Liability and 4601010 - Provision accounts since they are no longer necessary under accrual accounting.

#### IV.

#### **SUMMARY OF SETTLEMENT**

**A. The Settling Parties Agree That All Of SCE's Uncontested Or Agreed-Upon Proposals Should Be Adopted By The Commission**

As noted above, ORA either agreed with or did not take exception to many of the proposals in SCE's application and testimony. After further consultation between SCE and ORA, these include the issues discussed in Section III.E, subsections a-c, above. The Settlement Agreement provides that in such instances the Commission should approve those proposals. When there is no disagreement between the parties, and when the applicant has set forth sufficient testimony satisfying its burden of proof, the Commission should adopt the applicant's proposals.

**B. The Settling Parties Agree That the Commission Should Approve The Calpine Pastoria PPA And SCE Should Implement Corrective Measures**

Both parties agreed the Commission should accept and approve the Calpine Pastoria PPA and its costs should be recoverable from customers through ERRR. ORA also recommended a series of quality control process improvements for SCE to use in future procurement solicitations. After careful consideration, SCE agreed with ORA's recommendations as prudent

measures to mitigate the likelihood of future errors similar to the inadvertent coding error that led to the exclusion of GHG costs in the Calpine Pastoria PPA evaluation. This is a reasonable outcome within the range of litigation positions advocated by the Settling Parties.

**C. The Settling Parties Agree That SCE Should Set Forth The SOC 4 Maximum Disallowance Cap In Future ERRA Proceedings**

Recognizing the inherent uncertainty of continued litigation, and in light of the other tradeoffs in the Settlement Agreement, the Settling Parties agree that SCE should set forth the SOC 4 maximum disallowance cap in its direct testimony in support of future ERRA Review applications. This is a reasonable outcome within the range of litigation positions advocated by the Settling Parties.

**D. The Settling Parties Agree On Certain Prospective Changes SCE Will Make To Its UOG Outages Showings In Future ERRA Review Proceedings**

As a result of the workshop held in A.13-04-001, SCE and ORA agreed to certain prospective changes SCE would make to its UOG showing, beginning with the 2014 Record Period. That agreement, known as the Results of SCE's 2013 ERRA UOG Outage Reporting Workshop, was approved by the Commission in D.15-03-023, and is attached as an exhibit to the Settlement Agreement. The agreement imposes certain reporting requirements on SCE, and also memorializes the Settling Parties' intent to continue negotiations and discussions about potential future changes to SCE's UOG outage showings. As a result of those continued negotiations, the Settling Parties also agree that in future ERRA Review proceedings, beginning with the application for the 2015 Record Period (to be filed on April 1, 2016), that for the purposes of calculating potential "replacement power" costs for UOG outages, the formulas attached as an exhibit to the Settlement Agreement will be used as a starting point for discussion in the Parties' testimony. SCE will not be obligated to include such calculations or discussion in its direct

testimony. This is a reasonable outcome within the range of litigation positions advocated by the Settling Parties.

**E. SCE's Showings Regarding Non-Qualifying Facilities Contract Administration Are Generally No Longer in Dispute**

After reviewing SCE's rebuttal testimony, ORA agrees with SCE's proposals on the issues discussed in Section III.E, subsections a-c above, and they are no longer in dispute. Recognizing the inherent uncertainty of continued litigation, and in light of the other tradeoffs in the Settlement Agreement, ORA agrees to withdraw its recommendation in this proceeding to prohibit any after-the-fact reasonableness review in ERRA proceedings. ORA is not barred from making this argument in future ERRA Review proceedings. This is a reasonable outcome within the range of litigation positions advocated by the Settling Parties.

**F. The Settling Parties Agree That ORA Will Withdraw Its Recommendations On The Appropriate Demonstration Of GHG Compliance Instrument Procurement In ERRA Review Proceedings**

Recognizing the inherent uncertainty of continued litigation, and in light of the other tradeoffs in the Settlement Agreement, ORA agrees to withdraw its recommendation in this proceeding on the appropriate demonstration of GHG compliance instrument procurement. ORA is not barred from making this argument in future ERRA Review proceedings. This is a reasonable outcome within the range of litigation positions advocated by the Settling Parties.

**G. The Settling Parties Agree On Certain Prospective Changes SCE Will Make To Its LCD Showing In Future ERRA Review Proceedings**

The Settling Parties agree that for SCE's future ERRA Review proceedings starting with the 2014 Record Period (which was filed on April 1, 2015), unless and until there is additional guidance from the Commission, SCE's LCD demonstration showing shall be governed by the

requirements of D.15-05-007. ORA agrees to withdraw its recommendations as to the insufficiency of SCE's testimony on this issue and ORA has no further objection to SCE's claim that its 2013 Record Period LCD showing is adequate, complete, and compliant with Commission precedent and standards. This is a reasonable outcome within the range of litigation positions advocated by the Settling Parties.

#### **H. SCE And ORA Agree On GHG Accounting Issues**

After reviewing SCE's rebuttal testimony and discovery responses, ORA agrees with SCE's proposals on the issues discussed in Section III.H above, and they are no longer in dispute.

### **V.**

#### **REQUEST FOR ADOPTION OF THE SETTLEMENT AGREEMENT**

The Settlement Agreement is submitted pursuant to Rule 12.1 *et seq.* of the Commission's Rules of Practice and Procedure. The Settlement Agreement is also consistent with Commission decisions on settlements, which express the strong public policy favoring settlement of disputes if the settlements are fair and reasonable in light of the whole record.<sup>1</sup> This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.<sup>2</sup> As long as a settlement taken as a whole is reasonable in light of the record, consistent with the law, and in the public interest, it should be adopted without change.<sup>3</sup>

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<sup>1</sup> See, e.g., D.88-12-083 at p. 56 (*mimeo*), 30 CPUC 2d 189, 221-223; and D.91-05-029 at p. 42 (*mimeo*), 40 CPUC 2d, 301, 326.

<sup>2</sup> See D.92-12-019 at p. 8 (*mimeo*), 46 CPUC 2d 538, 553.

<sup>3</sup> See Rule 12.1(d) of the Commission's Rules of Practice and Procedure.

**A. The Settlement Agreement is Reasonable In Light Of the Record**

The record of this proceeding includes SCE's Application, ORA's Protest and SCE's Response thereto, the Settling Parties' written testimony, as well as this motion (with the attached Settlement Agreement). Together, the above documents provide the information necessary for the Commission to find the Settlement Agreement reasonable.

**B. The Settlement Agreement Is Consistent With the Law**

The Settling Parties believe that the terms of the Settlement Agreement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof. In agreeing to the terms of the Settlement Agreement, the Joint Settling Parties have explicitly considered the relevant statutes and Commission decisions and believe that the Commission can approve the Settlement Agreement without violating applicable statutes or prior Commission decisions.

**C. The Settlement Agreement Is In the Public Interest**

The Settlement Agreement is "supported by parties that fairly represent the affected interests" at stake in this proceeding.<sup>4</sup> The Settling Parties represent SCE and its residential and small business customers (through ORA). This is an all-party settlement. The Settling Parties believe the Settlement Agreement is in the public interest for the reasons discussed above.

The Settlement Agreement is a reasonable compromise of the Settling Parties' respective positions, as summarized in Section III. The Settlement Agreement is in the public interest and in the interest of SCE's customers. The Settlement Agreement, if adopted by the Commission, avoids the cost of further litigation, and frees up Commission and Party resources for other proceedings.

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<sup>4</sup> See D.07-11-018, p. 6 [internal citation omitted].

Each portion of the Settlement Agreement is dependent upon the other portions of the Settlement Agreement. Changes to one portion of the Settlement Agreement would alter the balance of interests and the mutually agreed upon compromises and outcomes which are contained in the Settlement Agreement. As such, the Settling Parties request that the Commission adopt the Settlement Agreement as a whole, as it is reasonable in light of the whole record, consistent with law, and in the public interest.

## **VI.**

### **CONCLUSION**

WHEREFORE, SCE, on behalf of itself and ORA, respectfully requests that the Commission expeditiously approve the attached Settlement Agreement as reasonable in light of the record, consistent with law, and in the public interest.

Respectfully submitted,

Russell A. Archer

*/s/ Russell A. Archer*

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DATE: August 14, 2015

**Attachment A**  
**Settlement Agreement**



**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

Application of Southern California Edison )  
Company (U 338-E) for a Commission Finding )  
that its Procurement-Related and Other )  
Operations for the Record Period January 1 )  
Through December 31, 2013 Complied with its )  
Adopted Procurement Plan; for Verification of its )  
Entries in the Energy Resource Recovery )  
Account and Other Regulatory Accounts; and for )  
Recovery of \$6.619 Million Recorded in Three )  
Memorandum Accounts. )

Application No. 14-04-006  
(Filed April 1, 2014)

**SETTLEMENT AGREEMENT BETWEEN SOUTHERN CALIFORNIA EDISON  
COMPANY (U 338-E) AND THE OFFICE OF RATEPAYER ADVOCATES**

The Office of Ratepayer Advocates (“ORA”) of the California Public Utilities Commission (“CPUC” or “Commission”) and Southern California Edison Company (“SCE”) (collectively, the “Parties”) hereby enter into this Settlement Agreement (“Settlement”) as a compromise of their respective litigation positions to resolve all disputed issues raised in the above-captioned proceeding. The Parties have addressed all of the issues in this proceeding and have negotiated this Settlement to resolve their disputes. Unless specifically addressed herein, any undisputed SCE proposals addressed in its Application and supporting testimony (as discussed more fully below) should be deemed to have been supported by the Parties, and the Parties request that the CPUC approve such proposals as just and reasonable. The Parties were the only active parties to the above-captioned proceeding, anticipate that this Settlement will be unopposed, and therefore request the CPUC deem this an all-party Settlement.

## **ARTICLE 1**

### **PROCEDURAL HISTORY**

1.1 On April 1, 2014, SCE filed Application (“A”) 14-04-006 for compliance and reasonableness review of its Energy Resource Recovery Account (“ERRA”) for the record period from January 1 through December 31, 2014 (“Record Period”). Concurrent with the filing of the Application, SCE also served its Direct Testimony, and shortly thereafter served nine volumes of workpapers.

1.2 Between May 1, 2014 and May 21, 2014, SCE provided to ORA responses to the Master Data Request (“MDR”) discovery submitted by ORA to SCE on February 3, 2014.

1.3 On May 5, 2014 ORA filed a Protest to SCE’s Application. On May 15, 2014, SCE filed a Response to ORA’s Protest.

1.4 On May 19, 2014 the Parties participated in a pre-hearing conference with assigned Administrative Law Judge (“ALJ”) Seaneen Wilson.

1.5 On May 30, 2014, the Scoping Memo and Ruling of Assigned Commissioner (“Scoping Memo”) was issued in this proceeding. The Scoping Memo directed ORA to file its

Testimony on September 26, 2014 and SCE to file its Rebuttal Testimony on October 22, 2014. Hearings were scheduled for November 18-19, 2014.

1.6 On July 9, 2014, SCE filed an Amended Application, and submitted testimony and workpapers in support thereof. That same day, SCE filed a Motion for Relief from Requirements of Rule 1.12(a). SCE's Amended Application included issues surrounding certain agreements for power and power-related products from the Calpine Pastoria facility with Calpine Energy Services, L.P. (Calpine Contracts).

1.7 On August 11, 2014, ORA filed its Protest to the Amended Application.

1.8 On August 22, 2014, SCE filed its Reply to ORA's Protest.

1.9 On August 27, 2014, ALJ Wilson issued an email ruling revising the scope and procedural schedule. This email ruling expanded the scope of the proceeding to consider the issues raised in SCE's Amended Application.

1.10 On November 14, 2014, ORA served its Testimony.

1.11 On December 18, 2014, SCE served its Rebuttal Testimony.

1.12 On February 2, 2015, the Parties requested that ALJ Wilson suspend the planned hearings because the Parties had reached an agreement in principle. ALJ Wilson suspended the hearings, and asked the Parties to provide an informal update on settlement progress on February 27, 2015. The Parties provided this informal update as requested via email.

1.13 On August 8, 2015, SCE provided a notice of settlement conference to the service list pursuant to Commission Rule of Practice and Procedure 12.1(b). The settlement conference was conducted telephonically on August 14, 2015. Parties participating in the settlement conference were SCE and ORA.

1.14 During this proceeding, SCE responded to 33 sets of discovery propounded by ORA that included 502 discovery requests.

1.15 ORA has reviewed SCE's Application, Amended Application, testimony and responses to ORA's discovery and concluded that the Commission's Final Order in this proceeding should approve all of the relief requested in SCE's Application, Amended

Application, and various exhibits of supporting testimony, except as expressly modified by the following provisions of this Settlement Agreement.

**ARTICLE 2**  
**SETTLEMENT TERMS AND CONDITIONS**

In order to avoid the risks and costs of litigation, the Parties agree to the following terms and conditions as a complete and final resolution of this proceeding.

2.1 In future ERRA Review proceeding filings, beginning with the application for the 2014 Record Period (which was filed on April 1, 2015), SCE will set forth the calculation of the maximum disallowance cap for a Standard of Conduct 4 violation and will break down the maximum disallowance cap by procurement functional category.

2.2 For SCE's future ERRA Review proceedings starting with the 2014 Record Period (which was filed on April 1, 2015), unless and until there is additional guidance from the Commission, SCE's Least-Cost Dispatch ("LCD") demonstration showing shall be governed by the requirements of Commission Decision ("D.") 15-05-007. ORA agrees to withdraw its recommendations as to the insufficiency of SCE's testimony on this issue and ORA has no further objection to SCE's claim that its 2013 Record Period LCD showing is adequate, complete, and compliant with Commission precedent and standards.

2.3 In future ERRA Review proceeding demonstrations, beginning with the application for the 2014 Record Period (which was filed on April 1, 2015), SCE agrees to adopt D.90-09-088's guidelines for SCE's affiliate-owned non-PURPA/CHP projects.

2.4 SCE agreed to and has made the necessary corrections to and between the ERRA and NSGBA balancing accounts. Reconciliation documents and other supporting documentation demonstrating such compliance is attached hereto as Exhibit A.

2.5 For issues relating to the SCE-Calpine Energy Services, L.P. power purchase agreement, which was executed out of SCE's 2011 "All-Source" Request for Offers ("RFO"), SCE has considered all of ORA's proposals as set forth in ORA's November 14, 2014, Report. SCE agrees to make the changes reflected in SCE's December 18, 2014, rebuttal testimony, a copy of which is attached hereto as Exhibit B and incorporated herein by reference.

2.6 Regarding Utility-Owned Generation (“UOG”) outages, ORA made certain recommendations in its Testimony. Subsequent to the submission of that Testimony, and of SCE’s Rebuttal Testimony, the Commission convened a workshop in SCE’s 2012 Record Period ERRR Review proceeding (A.13-04-001). As a result of that workshop, SCE and ORA agreed to certain prospective changes SCE would make to its UOG showing, beginning with the 2014 Record Period. That agreement, known as the Results of SCE’s 2013 ERRR UOG Outage Reporting Workshop was approved by the Commission in D.15-03-023, and is attached hereto as Exhibit C. The agreement imposes certain reporting requirements on SCE, and also memorializes the Parties’ intent to continue negotiations and discussions about potential future changes to SCE’s UOG outage showings. As a result of that agreement, ORA has no further objection to SCE’s claim that its 2013 Record Period UOG showing is adequate, complete, and compliant with Commission precedent and standards.

2.7 In future ERRR Review proceedings, beginning with the application for the 2015 Record Period (to be filed on April 1, 2016), ORA and SCE agree that for the purposes of calculating potential “replacement power” costs for UOG outages, the formulas attached hereto as Exhibit D shall be used as a starting point for discussion in the Parties’ testimony. SCE will not be obligated to include such calculations or discussion in its direct testimony. In agreeing to provide these formulas, SCE in no way admits or concedes that any particular UOG outage is due to any imprudence on the part of SCE, or that the Commission should automatically impose “replacement power”-based disallowances even if SCE’s conduct with respect to a particular outage has been determined to be imprudent. SCE specifically disputes that non-energy-related “costs” for forced outages (*e.g.*, certain capacity and other tangential consequential costs) are ever appropriate components of a potential disallowance for UOG outages. SCE reserves all of its rights to make proposed adjustments to the formula for specific outages based on the unique circumstances surrounding those outages, and to support those adjustments in testimony when necessary.

2.8      ORA further asserts that all other relief requested by SCE in its April 2014 Application (and Amended Application) in this proceeding should be approved by the Commission. In subsequent communications and filings with the Commission regarding this proceeding, ORA will support SCE's Application (and Amended Application) and the relief it has requested. The parties agree that other than as set forth explicitly herein, all of SCE's regulatory and ratemaking proposals as set forth in SCE's application, testimony, and workpapers are reasonable and should be deemed approved by the Commission. Accordingly, except as expressly set forth herein, ORA agrees to withdraw its recommendations as to the insufficiency of SCE's testimony.

### **ARTICLE 3**

#### **GENERAL PROVISIONS AND RESERVATIONS**

3.1 In accordance with Rule 12.5, the Parties intend that Commission adoption of this Settlement will be binding on all the Parties to this proceeding, including their legal successors, assigns, partners, members, agents, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Unless the Commission expressly provides otherwise, and except as otherwise expressly provided for herein, such adoption does not constitute approval or precedent for any principle or issue in this or any future proceeding.

3.2 The Parties agree that no signatory to the Settlement or any employee thereof assumes any personal liability as a result of this Settlement.

3.3 The Parties agree that this Settlement is subject to approval by the Commission. As soon as practicable after the Parties have signed this Settlement, the Parties will jointly file a Motion for Commission Approval and Adoption of the Settlement. The Parties will furnish such additional information, documents, and/or testimony as the Commission may require in granting the Motion and adopting this Settlement.

3.4 The Parties agree to support the Settlement and use their best efforts to secure Commission approval of the Settlement in its entirety and without modification.

3.5 The Parties agree to recommend that the Commission approve and adopt this Settlement in its entirety without change.

3.6 The Parties agree that, if the Commission fails to adopt the Settlement in its entirety and without modification, the Parties shall convene a settlement conference within fifteen (15) days thereof to discuss whether they can resolve the issues raised by the Commission's actions. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Settlement shall be rescinded and the Parties shall be released from their obligation to support the Settlement. Thereafter, the Parties may pursue any action they deem appropriate, but agree to cooperate in establishing a procedural schedule.



3.7 The Parties agree to actively and mutually defend the Settlement if the adoption is opposed by any other party.

3.8 If any Party fails to perform its respective obligations under the Settlement, the other Party may come before the Commission to pursue a remedy including enforcement.

3.9 The provisions of this Settlement are not severable. If the Commission, or any court of competent jurisdiction, overrules or modifies as legally invalid any material provision of this Settlement, this Settlement may be considered rescinded as of the date such ruling or modification becomes final, at the discretion of the Parties.

3.10 The Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress or undue influence by any other party. Each Party hereby states that it has read and fully understands its rights, privileges and duties under this Settlement, including each Party's right to discuss this Settlement with its legal counsel and has exercised those rights, privileges and duties to the extent deemed necessary.

3.11 In executing this Settlement, each Party declares and mutually agrees that the terms and conditions herein are reasonable, consistent with the law, and in the public interest.

3.12 The Settlement constitutes a full and final settlement of all issues reviewed by ORA in the above-captioned proceeding. The Settlement constitutes the Parties' entire settlement, which cannot be amended or modified without the express written and signed consent of all the Parties hereto.

3.13 No Party has relied, or presently relies, upon any statement, promise, or representation by any other Party, whether oral or written, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

3.14 This Settlement may be executed in any number of separate counterparts by the different Parties hereto with the same effect as if all Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Settlement.

3.15 This Settlement shall become effective and binding on the Parties as of the date it is approved by the Commission in a final and non-appealable decision.

3.16 This Settlement shall be governed by the laws of the State of California as to all matters, including but not limited to, matters of validity, construction, effect, performance, and remedies.

## CONCLUSION

The Parties mutually believe that, based on the terms and conditions stated above, this Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. In Witness Whereof, intending to be legally bound, the Parties' authorized representatives hereto have duly executed this Settlement on behalf of the Parties they represent.

August 14, 2015

SOUTHERN CALIFORNIA EDISON COMPANY

/s/ Russell G. Worden

By: Russell G. Worden

Title: Managing Director, State Regulatory Operations

August 14, 2015

OFFICE OF RATEPAYER ADVOCATES

/s/ Joseph Como

By: Joseph Como

Title: Acting Director

**Exhibit A**

## John Montanye

---

**From:** Lui, Brian <Brian.Lui@cpuc.ca.gov>  
**Sent:** Friday, February 13, 2015 3:49 PM  
**To:** John Montanye  
**Cc:** Joanne Aldrich; yuliya.shmidt (cpuc.ca.gov); Haga, Robert; Russell Archer; Novack, Grant C.  
**Subject:** RE: SCE question regarding ORA-1C, Page 10-2

Good afternoon John,

Sorry for the delayed response.

It appears the issue has been resolved. In December 2014, SCE recorded a beginning of month adjustment (related to the 2013 record period) crediting the 1) New System Generation Balancing Account for the correction plus interest, and debiting the 2) ERRA Balancing Account for the same amount.

Sincerely,

Brian Lui  
Financial Examiner  
Electricity Planning & Policy, Office of Ratepayer Advocates  
California Public Utilities Commission  
Tel: (415) 703-1349  
brian.lui@cpuc.ca.gov

Some of the information in this email may be privileged and confidential.

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**From:** John Montanye [mailto:John.Montanye@sce.com]  
**Sent:** Monday, February 02, 2015 4:05 PM  
**To:** Lui, Brian  
**Subject:** RE: SCE question regarding ORA-1C, Page 10-2

Good Afternoon Brian,

Here are responses to your questions:

1. Yes, SCE has already made the stated adjusting entries in November 2014.

2. Attached are the General Ledger screenshots that show the adjusting entries postings from both ERRA and NSGBA. Thank you.

---

**From:** Lui, Brian [<mailto:Brian.Lui@cpuc.ca.gov>]

**Sent:** Friday, January 30, 2015 3:51 PM

**To:** John Montanye

**Cc:** Joanne Aldrich; yuliya.shmidt (cpuc.ca.gov); Haga, Robert; Russell Archer; Novack, Grant C.

**Subject:** SCE question regarding ORA-1C, Page 10-2

Hello John,

Regarding Application (A.)14-04-006 (SCE ERRA 2013 Record Year) ORA testimony exhibit ORA-1C, Page 10-2. Lines 19 through 26.

Looking at SCE's response to DR 25, Question 25.5.10 stated "In November 2014, SCE intends to record a beginning of month adjustment (related to the 2013 record period) crediting the New System Generation Balancing Account for the correction plus interest, and debiting the ERRA Balancing Account for the same amount..."

I understand you wanted a response on the resolution of the issue but I have a few questions first.

1. I was wondering if SCE has already made the stated adjusting entries?
2. If so, could you please email me the General Ledger screenshots that show the adjusting entries postings from both ERRA and the NSGBA?

I wanted to at least see the screenshots before I made my opinion. Thank you.

Sincerely,

Brian Lui  
Auditor  
Electricity Planning & Policy Branch  
Office of Ratepayer Advocates  
California Public Utilities Commission  
Tel: (415) 703-1349  
[brian.lui@cpuc.ca.gov](mailto:brian.lui@cpuc.ca.gov)

Some of the information in this email may be privileged and confidential.

NOVEMBER 2014

G/L Account  
Company Code  
Ledger

1412010  
2001  
0L

Energy Resource Recovery Account P9038

Document No	BUPA	Typ	Doc Date	PR	Amount In Local Cur	Profit Ctr	Text
1001317044		SA	12/02/2014	40	479,709.25	P9038	Adj. Walnut Creek capacity payment Dec 2013
1001317044		SA	12/02/2014	40	413.91	P9038	Interest-Adj. Walnut Creek capacity payment Dec 2013
1001317069		SA	12/04/2014	40	471,021.10	P9038	Adj. Wellhead Delano capacity payment Jun 2013 thr
1001317069		SA	12/04/2014	40	539.91	P9038	Interest-Adj. Wellhead Delano capacity payment Jun
1001320044		SA	12/05/2014	40	145,000.00	P9038	Transfer SGRP revenue to ERRR
1001322059		SA	12/05/2014	50	675,911,909.36	P9038	Transfer SONGS reg liab to ERRR thru Oct '14
1001322059		SA	12/05/2014	40	27,310,333.00	P9038	Transfer revenue amortization of M&S to ERRR
1001322059		SA	12/05/2014	40	133,904,564.00	P9038	Transfer revenue amortization of nuclear fuel to E
1001322059		SA	12/05/2014	40	1,635,000.00	P9038	Transfer revenue amortization of nuclear fuel carr
1001322059		SA	12/05/2014	40	20,546,000.00	P9038	Transfer revenue SONGS reg liab to ERRR-Nov '13
1001323046		SA	12/05/2014	50	28,513,480.00	P9038	Transfer SONGS reg liab to ERRR-Nov '14
1001323993		SA	12/05/2014	50	734,000.00	P9038	Interest on refund (ERRR related)
1001323994		SA	12/05/2014	50	947,622.00	P9038	Transfer sale tax refund to ERRR
1001324994		SA	12/05/2014	50	10,529,000.00	P9038	Reclass doc 1001322059 line 5
1001324995		SA	12/05/2014	40	72,405,300.93	P9038	ERRR Provision November 2014
1001324995		SA	12/05/2014	40	73,085.21	P9038	ERRR Interest November 2014
1001324995		SA	12/05/2014	40	2,824.48	P9038	ERRR Collateral Interest November 2014
1001324995		SA	12/05/2014	40	774,000.00	P9038	Bond issuance fee
1001324995		SA	12/05/2014	40	11,308.56	P9038	GHG sub-account Interest November 2014
1001325994		SA	12/05/2014	40	8,102,350.05	P9038	Adj. PURPA CAM per Errata filing 10/16/2014
1001325994		SA	12/05/2014	40	12,124.62	P9038	Interest-Adj. PURPA CAM per Errata filing 10/16/20
1001326968		SA	12/05/2014	50	12,122,550.00	P9038	Reverse termination fee (Jun '13 & Mar '14)
1001326968		SA	12/05/2014	50	13,570.65	P9038	Interest-Reverse termination fee (Jun '13 & Mar '14)
*					462,898,556.99-	P9038	
**					462,898,556.99-		

November 2014

G/L Account  
Company Code  
Ledger

1412690  
2001  
01

New System Gen Balancing Account

Document No	BUSA	Typ	Doc Date	PK	Amount In Local Cur	Profit Ctr	Text
<input type="checkbox"/> 1001317070		SA	12/04/2014	50	471,021.10-	P9047	NSGBA 2013 Wellhead Delano Correction Provision
<input type="checkbox"/> 1001317070		SA	12/04/2014	50	539.91-	P9047	NSGBA 2013 Wellhead Delano Correction Interest
<input type="checkbox"/> 1001319996		SA	12/02/2014	50	479,709.25-	P9047	NSGBA 2013 ERRA Errita Provision
<input type="checkbox"/> 1001319996		SA	12/02/2014	50	413.91-	P9047	NSGBA 2013 ERRA Errita Interest
<input type="checkbox"/> 1001320048		SA	12/05/2014	50	10,196,287.64-	P9047	NSGBA Provision November 2014
<input type="checkbox"/> 1001320048		SA	12/05/2014	40	6,531.65-	P9047	NSGBA Interest November 2014
<input type="checkbox"/> 1001321003		SA	12/03/2014	50	222,391.99-	P9047	NSGBA 2012-2014 GRC Rev Req Revision Provision
<input type="checkbox"/> 1001321003		SA	12/03/2014	50	539.86-	P9047	NSGBA 2012-2014 GRC Rev Req Revision Interest
<input type="checkbox"/> 1001323991		SA	12/05/2014	50	8,097,373.67-	P9047	NSGBA 2013 PURPA CAM Provision
<input type="checkbox"/> 1001323991		SA	12/05/2014	50	13,921.45-	P9047	NSGBA 2013 PURPA CAM Interest
*					19,475,667.13-	P9047	
**					19,475,667.13-		



**Southern California Edison  
April 2014 ERRA Review A.14-04-006**

**DATA REQUEST SET A1404006 ORA-SCE-25**

**To: ORA  
Prepared by: Elaine Quach  
Title: Controllers Power Procurement Accounting  
Dated: 11/17/2014**

**Received Date: 11/17/2014**

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**Question 25.5.01:**

In Errata dated November 10, 2014, Exhibit SCE-12 "Energy Resources Recovery Account (ERRA) Review of Operations, 2013; Additional ERRATA re Certain Contract Costs" page 1 lines 9 and 10 refer to the new, corrected Table VIII-46 as Appendix A and the old, incorrect Table VIII-46 as Appendix B:

- i. Is it correct that, comparing Appendix A to Appendix B, the only difference is the Capacity Payments for the 12/1/2013 – 1/1/2014 Billing Period?
- ii. If yes, specify the dollar amounts.
- iii. If no, state all of the differences between Appendix A and Appendix B.
  1. Specify the dollar amounts of each difference.

**Response to Question 25.5.01:**

- (i) Yes, it is correct that when comparing Appendix A to Appendix B, the only difference is the Capacity Payments for the 12/1/2013 - 1/1/2014 Billing Period.
- (ii) The dollar amount difference is \$481,788.31. (Old Table VIII-46 showed \$24,700 and the errata new, corrected Table VIII-46 updates it to \$506,488.31).

Application No.: A.14-04-006  
Exhibit No.: SCE-12  
Witnesses: Marci Palmstrom



(U 338-E)

***Energy Resources Recovery Account (ERRA) Review  
of Operations, 2013; Additional ERRATA re Certain  
Contract Costs***

Before the  
**Public Utilities Commission of the State of California**

Rosemead, California  
November 10, 2014

1 I.

2 INTRODUCTION

3 After preparing and submitting an errata to correct errors contained in Exhibit SCE-02C and the  
4 corresponding Appendix (i.e., Exhibit SCE-04C) (Exhibit SCE-10C), SCE reviewed the description of  
5 the appropriate cost recovery treatment of costs associated with certain contracts in SCE's Exhibit SCE-  
6 01C and the corresponding workpapers that have costs recovered through both the Cost Allocation  
7 Mechanism (CAM) and ERRA.

8 Accordingly, SCE is submitting the following errata: Table VIII-46 in Exhibit SCE-01C has  
9 been updated to reflect the correct costs that are recovered through ERRA. The new, corrected Table  
10 VIII-46 is included as Appendix A to this errata. The old, incorrect Table VIII-46 is included as  
11 Appendix B to this errata for reference.

12 Additionally, corresponding corrections are required in the Confidential workpapers to SCE-01C  
13 (Bilateral Power Payments In 2013). The new, corrected Bilateral Power Payments In 2013 and the old,  
14 incorrect Bilateral Power Payments In 2013 will be provided.

## Appendix A

Corrected

**Table VIII-46**  
**Production by and Payments to Affiliate Power Contracts**  
**January 1, 2013 Through December 31, 2013**

Section 1: This section reflects kWh generated, paid for and reported during this Record Period.\*

A		B		C		D		E	
<u>BILLING PERIOD</u>		<u>kWh</u>		<u>ENERGY</u> <u>PAYMENTS</u> <u>(\$)</u>		<u>CAPACITY</u> <u>PAYMENTS</u> <u>(\$)</u>			
1/1/2013	2/1/2013	:	0	:	\$0.00	:	\$0.00	:	
2/1/2013	3/1/2013	:	0	:	\$0.00	:	\$0.00	:	
3/1/2013	4/1/2013	:	0	:	\$0.00	:	\$0.00	:	
4/1/2013	5/1/2013	:	0	:	\$0.00	:	\$0.00	:	
5/1/2013	6/1/2013	:	0	:	\$0.00	:	\$0.00	:	
6/1/2013	7/1/2013	:	16,993	:	\$31,776.82	:	\$13,325.00	:	
7/1/2013	8/1/2013	:	25,246	:	\$47,210.70	:	\$16,900.00	:	
8/1/2013	9/1/2013	:	68,385	:	\$127,880.65	:	\$35,425.00	:	
9/1/2013	10/1/2013	:	39,035	:	\$74,395.92	:	\$28,600.00	:	
10/1/2013	11/1/2013	:	27,793	:	\$50,251.14	:	\$32,175.00	:	
11/1/2013	12/1/2013	:	16,026	:	\$29,969.12	:	\$19,825.00	:	
12/1/2013	1/1/2014	:	43,300	:	\$85,812.48	:	\$506,488.31	:	
		:		:		:		:	
TOTALS:		:	236,778	:	\$447,296.83	:	\$652,738.31	:	
		:		:		:		:	
Summary							Dollars	kWh	
TOTAL ENERGY PAYMENT							\$447,296.83		
TOTAL CAPACITY PAYMENT							\$652,738.31		
TOTAL PAYMENT							\$1,100,035.14	236,778	
* Walnut Creek’s costs are allocated to two separate accounts for cost recovery. Table VIII-46 is borne by SCE’s customers through this ERRa chapter.									

## 2. Power Contract Amendments

In this application, SCE is requesting the Commission determine that the contract amendments executed during the Record Period were conducted in accordance with Commission guidelines and such activities were reasonable. These amendments are included in Table VIII-47 discussed below.

## Appendix B

Original

*Table VIII-46*  
*Production by and Payments to Affiliate Power Contracts*  
*January 1, 2013 Through December 31, 2013*

Section 1: This section reflects kWh generated, paid for and reported during this Record Period.\*

A		B		C		D		E	
<u>BILLING PERIOD</u>		<u>kWh</u>		<u>ENERGY PAYMENTS</u> ( <u>\$</u> )		<u>CAPACITY PAYMENTS</u> ( <u>\$</u> )			
1/1/2013	2/1/2013	:	0	:	\$0.00	:	\$0.00	:	
2/1/2013	3/1/2013	:	0	:	\$0.00	:	\$0.00	:	
3/1/2013	4/1/2013	:	0	:	\$0.00	:	\$0.00	:	
4/1/2013	5/1/2013	:	0	:	\$0.00	:	\$0.00	:	
5/1/2013	6/1/2013	:	0	:	\$0.00	:	\$0.00	:	
6/1/2013	7/1/2013	:	16,993	:	\$31,776.82	:	\$13,325.00	:	
7/1/2013	8/1/2013	:	25,246	:	\$47,210.70	:	\$16,900.00	:	
8/1/2013	9/1/2013	:	68,385	:	\$127,880.65	:	\$35,425.00	:	
9/1/2013	10/1/2013	:	39,035	:	\$74,395.92	:	\$28,600.00	:	
10/1/2013	11/1/2013	:	27,793	:	\$50,251.14	:	\$32,175.00	:	
11/1/2013	12/1/2013	:	16,026	:	\$29,969.12	:	\$19,825.00	:	
12/1/2013	1/1/2014	:	43,300	:	\$85,812.48	:	\$24,700.00	:	
TOTALS:		:	236,778	:	\$447,296.83	:	\$170,950.00	:	
Summary							Dollars	kWh	
TOTAL ENERGY PAYMENT							\$447,296.83		
TOTAL CAPACITY PAYMENT							\$170,950.00		
TOTAL PAYMENT							\$618,246.83	236,778	

\* Walnut Creek's costs are allocated to two separate accounts for cost recovery – ERRa and CAM. Table VIII-4 is borne by SCE's customers through this ERRa chapter. Refer to Chapter XII for the CAM allocations.

## 2. Power Contract Amendments

In this application, SCE is requesting the Commission determine that the contract amendments executed during the Record Period were conducted in accordance with Commission guidelines and such activities were reasonable. These amendments are included in Table VIII-47 discussed below.

**Southern California Edison  
April 2014 Erra Review A.14-04-006**

**DATA REQUEST SET A1404006 ORA-SCE-25**

**To: ORA  
Prepared by: Lynn Lam  
Title: Accountant  
Dated: 11/17/2014**

**Received Date: 11/17/2014**

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**Question 25.5.02:**

In Errata dated November 10, 2014, Exhibit SCE-12, lines 8 and 9 states that "Table VIII-46 in Exhibit SCE-01C has been updated to reflect the correct costs that are recovered through Erra."

- i. What Erra tariff line item(s) is (are) affected by this correction?
- ii. What line number on Exhibit SCE-2 Table XII-3 "Operation of the Erra BA" is affected?
- iii. Are there other balancing or memorandum accounts affected by this correction?
- iv. If yes, state the affected accounts and specify the dollar amounts.
- v. If yes, explain how the accounts have been affected.
- vi. If yes, list the tariff line item of the affected account.
- vii. If yes, does this affect the ending balance of the account

**Response to Question 25.5.02:**

- i. The Erra tariff line item that will be affected by this correction is Preliminary Statement ZZ Energy Resource Recovery Account, 3f - A debit entry equal to recorded Bilateral contracts expense.
- ii. There is no SCE-2 Table XII-3. - See SCE-2 Table XII-33. No line number on Exhibit SCE-12 Table XII-33 (Operation of the Erra BA 2013) is affected



because the correction will be recorded in November 2014.

- iii. NSGBA is also affected.
- iv. ERRA will be increased by \$479,709 and NSGBA will be decreased by \$479,709.
- v. ERRA will be increased by \$479,709 and NSGBA will be decreased by \$479,709.
- vi. The ERRA tariff line item that is affected by this correction is preliminary statement ZZ Energy Resource Recovery Account, 3f - A debit entry equal to recorded Bilateral contracts expense.
- vii The 2013 account ending balances (ERRA and NSGBA) will remain the same. SCE will make beginning of month adjustments in November 2014. These entries will be reviewed in SCE's April 1, 2015 ERRA Review Application for the 2014 Record Period.

Elaine Quach

**Southern California Edison  
April 2014 ERRA Review A.14-04-006**

**DATA REQUEST SET A1404006 ORA-SCE-25**

**To: ORA  
Prepared by: Elaine Quach  
Title: Controllers Power Procurement Accounting  
Dated: 11/17/2014**

**Received Date: 11/17/2014**

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**Question 25.5.04:**

In Errata dated November 10, 2014, SCE provided the new and Table VIII-46. The new/corrected Table VIII-46 shows for December 2013 "capacity payments" of \$506,488.31, an increase of \$481,788.31 from the old/incorrect amount of \$24,700.00.

- i. Explain how SCE discovered that "capacity payments" for 2013 needed to be corrected.
- ii. Explain whether and how the needed correction relates to Walnut Creek Energy and/or ORA Data Request 11.
- iii. Provide workpapers supporting both amounts: new \$506,488.31 and old \$24,700.00.
- iv. Provide a breakdown of the \$506,488.31, showing each applicable monthly dollar amount.
- v. Explain and illustrate how the Errata of \$482K (Table VIII-46 in SCE-12) directly affect the ERRA balancing account.
- vi. Explain whether SCE intends to record a correcting credit or correcting debit to the 2013 ERRA to correct the 2013 \$482K error.
- vii. Explain whether SCE intends to record a correcting debit or correcting credit to the 2013 NSGBA to correct the \$482K error.

**Response to Question 25.5.04:**

i. SCE discovered that "capacity payments" for 2013 needed to be corrected during its effort to compile the 2013 recorded costs for Combined Heat and Power (CHP) contracts that are subject to CAM allocation. During that effort, SCE decided to re-verify and confirm how other activities subject to CAM allocation are recorded.

ii. The capacity payment for Walnut Creek required a correction for the month of December only.

iii. See attached as previously provided in A.14-04-006 ORA-SCE-11 Question 11 in Excel format. See pdf files: ORA-SCE-25 25.5.04(iii)-\$24,700 and ORA-SCE-25 25.5.04(iii)-\$506,488.31.

iv. \$506,488.31 represents capacity payments for one month, the billing period 12/1/2013 - 1/1/2014.

v. As shown in Appendix B of the errata, capacity payment for the billing period 12/1/2013 - 1/1/2014 was reported at \$24,700 (as originally filed) while in Appendix B of the errata, capacity payment for the same billing period is now \$506,488.31. The ERRA balancing account has been understated by the difference.

vi. SCE intends to record a debit to the ERRA balancing account to correct the error.

vii. SCE intends to record a credit to the NSGBA balancing account to correct the error.

**Also, please see response to 25.5.10 which explains the accounting treatment and the related correction.**



#	Monthly	Energy Quantity kWh	Energy Payment \$1,000 <sup>1</sup>	Capacity Payment \$1,000 <sup>2</sup>
1	June, 2013	16,992,950	\$ 31.776817	\$ 13,325
2	July, 2013	25,246,361	\$ 47.210696	\$ 16,900
3	August, 2013	68,385,372	\$ 127.880646	\$ 35,425
4	September, 2013	39,035,415	\$ <sup>3</sup> 72.996225	\$ 28,600
5	October, 2013	27,792,704	\$ <sup>4</sup> 51.972356	\$ 32,175
6	November, 2013	16,026,268	\$ 29.969121	\$ 19,825
7	December, 2013	43,299,973	\$ <sup>5</sup> 80.970950	\$ <sup>6</sup> 30,225

**Note:**

1 Energy Payment for Walnut Creek under ERRa is VOM charge with a flat rate of \$1.87/MWh

2 Capacity Payment for Walnut Creek under ERRa is startup cost with a fixed \$325 per start

3 For September, Energy Payment filed included Prior Period Adjustment payment with amount of:

\$ 1.399690

4 For October, we pay invoiced amount of \$50,251.14. So the difference from SCE calculated energy payment and counterparty invoiced amount is:

\$ (1.721216)

5 For December, Energy payment filed included Prior period Adjustment payment with amount of:

\$ 4.841530

6 For December, Capacity payment filed included Prior period Adjustment payment with amount of:

\$ (5,525)

Totals \$24,700

Total 236,779,043 \$ 447.29681 \$ 170,950

#	Monthly	Energy Quantity kWh	Energy Payment \$1,000 <sup>1</sup>	Capacity Payment \$1,000 <sup>2</sup>
1	June, 2013	16,992,950	\$ 31.776817	\$ 13,325
2	July, 2013	25,246,361	\$ 47.210696	\$ 16,900
3	August, 2013	68,385,372	\$ 127.880646	\$ 35,425
4	September, 2013	39,035,415	\$ 3 72.996225	\$ 28,600
5	October, 2013	27,792,704	\$ 4 51.972356	\$ 32,175
6	November, 2013	16,026,268	\$ 29.969121	\$ 19,825
7	December, 2013	43,299,973	\$ 5 80.970950	6 512,013.31

**Note:**

1 Energy Payment for Walnut Creek under ERRa is VOM charge with a flat rate of \$1.87/MWh

2 Capacity Payment for Walnut Creek under ERRa is startup cost with a fixed \$325 per start. For December 2013, it also includes \$481,788.31, a percentage

3 For September, Energy Payment filed included Prior Period Adjustment payment with amount of:

\$ 1.399690

4 For October, we pay invoiced amount of \$50,251.14. So the difference from SCE calculated energy payment and counterparty invoiced amount is:

\$ (1.721216)

5 For December, Energy payment filed included Prior period Adjustment payment with amount of:

\$ 4.841530

6 For December, Capacity payment filed included Prior period Adjustment payment with amount of:

\$ (5,525)

Totals \$506,488.31

Total 236,779,043 \$ 447.29681 \$ 652,738.31

of monthly capacity payment

**Exhibit B**

Application No.: A.14-04-006  
Exhibit No.: SCE-13  
Witnesses: D. Tessler  
T. Watson  
M. Palmstrom  
C. Cushnie  
T. Ware  
D. Snow  
J. Buerkle



(U 338-E)

***REBUTTAL TESTIMONY OF SOUTHERN  
CALIFORNIA EDISON COMPANY (U 338-E)***

Before the

**Public Utilities Commission of the State of California**

Rosemead, California  
December 18, 2014



# REBUTTAL TESTIMONY OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

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**REBUTTAL TESTIMONY OF SOUTHERN CALIFORNIA EDISON  
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Appendix A Witness Qualifications

1 In this rebuttal testimony, Southern California Edison (SCE) responds to the Office of Ratepayer  
2 Advocates' (ORA) November 14, 2014, Report (ORA Testimony).

3 **I.**

4 **THE COMMISSION SHOULD REJECT ORA'S RECOMMENDATIONS REGARDING THE**  
5 **STANDARD OF CONDUCT 4 DISALLOWANCE CAP**

6 In Chapter 2 of its Testimony, ORA recommends that for future Energy Resource Recovery  
7 Account (ERRA) Record Years, SCE be required to include the Standard of Conduct 4 (SOC 4)  
8 disallowance cap amount in its application, and also to disaggregate the disallowance cap amount by  
9 procurement functional categories. The Commission should reject both of those recommendations.

10 **A. SCE's Process for Providing the SOC 4 Disallowance Cap Amount and Calculation During**  
11 **the Discovery Phase of the ERRA Proceeding is Appropriate**

12 In compliance with Decisions (D.) 02-10-062, D.02-10-074 and D.03-06-067,<sup>1</sup> SCE provides the  
13 SOC 4 disallowance cap amount, including detailed supporting calculations and workpapers, when  
14 requested during the ERRA proceeding discovery process. SCE disagrees with ORA's proposal to  
15 include the SOC 4 disallowance cap and calculation in the annual ERRA application and testimony  
16 because the disallowance cap is not a necessary part of SCE's case-in-chief. SCE's direct testimony  
17 provides the necessary information to support its ERRA showing, and the disallowance cap is only  
18 relevant if a party proposes a procurement-related disallowance. In such a situation, SCE can readily  
19 submit the disallowance cap calculation (with detailed back-up) in response to a discovery request or in  
20 rebuttal testimony as appropriate.

21 **B. ORA's Proposal to Disaggregate Administrative Expenses from Procurement Function**  
22 **Categories Should be Rejected**

23 ORA recommends that commencing with Record Year 2014, SCE should provide the maximum  
24 SOC 4 disallowance amount broken down by procurement functional categories and show how these

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<sup>1</sup> D.02-10-062, pp. 50-52, D.02-12-074, pp. 77-78, OP 25, D.03-06-067 OP 25.

1 categories are derived.<sup>2</sup> As SCE explained in its response to ORA Master Data Request (MDR)  
2 A1404XXX-ORA-SCE-01 question #1.7.1, SCE's accounting cost structures are set up to track  
3 expenses by department/division instead of tracking administrative expenses for specific procurement  
4 functional categories. Furthermore, SCE's accounting system does not currently have the capability to  
5 track expenses by the requested procurement functional categories. Even if SCE were to develop such a  
6 capability, it would impose a significant administrative burden in SCE's timekeeping system because it  
7 would require all procurement function employees to track the percentage of time they spend on various  
8 categories of procurement activity. In its response to MDR question #1.7.1, SCE details the  
9 department(s) incurring administrative expenses that align to the procurement functional categories, as  
10 well as the total Commission-approved GRC amount, at an aggregated level. Because certain  
11 procurement functions can encompass multiple SCE departments, SCE's aggregated presentation is an  
12 appropriate method to summarize the maximum SOC 4 disallowance cap amount, and ORA's  
13 recommendation should be rejected.

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<sup>2</sup> ORA Testimony at p. 2-4.

1 II.

2 **SCE DISAGREES WITH ORA’S PROPOSED DEMAND RESPONSE RESOURCE METRICS**  
3 **FOR LEAST-COST DISPATCH COMPLIANCE**

4 In Chapter 3 of its Testimony, ORA recommends that the Commission order SCE include all  
5 dispatchable Demand Response (DR) resources in its annual Least-Cost Dispatch (LCD) compliance  
6 demonstration in ERRA. ORA also recommends the adoption of DR-specific “metrics” for those  
7 showings.

8 D.13-10-041, D.13-11-005 and D.14-07-006 addressed Applications (A.)11-02-011, 11-04-001  
9 and 11-06-003 (PG&E’s, SCE’s and SDG&E’s respective 2010 Record Period ERRA review  
10 proceedings). In these decisions, the Commission directed each utility to hold a workshop, in order to  
11 develop proposed criteria that should be used to determine what constitutes LCD compliance, and the  
12 resulting methodology the utilities should follow to assemble a showing to meet its burden to prove such  
13 compliance. Through these three workshops and in consult with ORA, the three utilities (Joint Utilities)  
14 developed and socialized a set of proposed criteria (Joint Proposal) that would allow each utility to meet  
15 its burden of proof.

16 On October 21, 2014 the Joint Utilities filed a motion to approve the Joint Proposal in the  
17 utilities’ 2010 Record Period ERRA review proceedings. ORA responded to the motion, recommending  
18 that “[a] more complete demonstration of [Demand Response] programs that fall under the scope of the  
19 LCD standard should be included,” and proposed “a range of metrics (see Exhibit A) that will provide  
20 more transparency regarding the dispatch of these resources.”<sup>3</sup>

21 While SCE acknowledges that the presiding Administrative Law Judge (ALJ) for the utilities’  
22 2010 Record Period ERRA review proceedings subsequently issued an interim ruling adopting ORA’s  
23 recommendations regarding DR metrics for LCD compliance *on an interim basis* for the 2014 Record

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<sup>3</sup> Response to Motion For Approval Of Joint Proposal For the Demonstration Of Least-Cost Dispatch at Exhibit A in A.11-04-001.

1 Period,<sup>4</sup> SCE disagrees with the proposed metrics.<sup>5</sup> SCE will of course comply with the terms specified  
2 in the interim ruling, but respectfully requests that the Commission reconsider what constitutes  
3 appropriate treatment for DR resources in future years.

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<sup>4</sup> See Interim Ruling Providing Guidance For 2014 Erra Compliance Proceedings dated December 2, 2014, at p.12 in A.11-04-001.

<sup>5</sup> Joint Utilities Response to ORA on Motion For Approval Of Joint Proposal For the Demonstration Of Least-Cost Dispatch at p.7 in A.11-04-001.

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**III.**

**SCE’S RESPONSE TO ORA TESTIMONY REGARDING NON-QUALIFYING FACILITIES**  
**CONTRACT ADMINISTRATION**

In Chapter 4 of its Testimony, ORA makes four recommendations relating to SCE’s contract administration for non-qualifying facilities: (a) the Commission should accept SCE’s request for cost recovery for the Walnut Creek Affiliate Transaction; (b) the Commission should adopt the guidelines in D.90-09-088 for SCE’s reporting and review of its affiliate-owned non-PURPA Combined Heat and Power (CHP) projects; (c) the Commission should approve Transaction 1 of the tolling agreement between SCE and Dynegy Moss Landing; and (d) the Commission should order SCE not to include any issues requiring an after-the-fact reasonableness review in future ERRA compliance filings. SCE responds to those four recommendations below.

**A. SCE is not Requesting “Recovery” of Amounts Related to the Walnut Creek Energy, LLC Affiliate Transaction**

ORA’s Testimony purports to “provisionally accept[] [SCE’s] recovery request of \$1,100,035.14” related to payments made by SCE to Walnut Creek Energy during the Record Year. SCE is not requesting “recovery” of any amounts paid to Walnut Creek Energy; the Commission has already pre-approved the “recovery” of those amounts in the decision approving the contract between SCE and Walnut Creek Energy (D.08-09-041). The Commission’s review of purchase and sale transactions, including contracts’ terms and prices, is conducted in SCE’s QCR advice letter filing or through separate applications, and not through ERRA. Rather, SCE’s ERRA testimony set forth information sufficient for the Commission to confirm that SCE administered its energy contracts in accordance with the terms of the contracts. Table VIII-46, which reflected the kilowatt-hours generated and paid for during the Recored Period, was included in accordance with D.90-09-088, which sets forth requirements for affiliate transactions. At some point during the Record Period, Walnut Creek Energy was an affiliate.



1 **B. SCE is Amenable to D.90-09-088's Guidelines Being Applied to non-PURPA CHP Projects**

2 ORA's Testimony "does not object to SCE using [the D.90-09-088] reporting requirements for  
3 ... non-PURPA/CHP contract[s] ... ." SCE agrees with this recommendation.

4 **C. The Commission Should Approve Transaction 1 of the Tolling Agreement Between SCE**  
5 **and Dynegy Moss Landing**

6 SCE appreciates and agrees with ORA's recommendation to have the Commission approve  
7 Transaction 1 with Dynegy Moss Landing LLC, (DML) for a Resource Adequacy (RA) and Energy  
8 Only (EO) Tolling transaction with a 2014-2015 delivery period. While ORA asserts that both  
9 Transaction 1 and Transaction 2 should have been submitted through the advice letter process, SCE  
10 clarifies that the decision to execute Transaction 1 and present it for review in this ERRA proceeding  
11 (A.14-04-006) and Transaction 2 for review through the advice letter process was in SCE's customers'  
12 best interests.

13 Although it was SCE's preference to file Transaction 1 through the advice letter process as was  
14 done with Transaction 2, eliminating dispute risk and maximizing customer value led to SCE's decision  
15 to submit Transaction 1 through the ERRA review process. Specifically, in order to settle the disputes  
16 Dynegy had filed against SCE, it was necessary for Transaction 1 to start delivering on January 1, 2014.  
17 Given that the deal was executed on October 10, 2013, it was not realistic to draft, file and allow the  
18 Commission sufficient time to review the advice letter in the short window of several months.  
19 Moreover, Dynegy would not agree to waive its claims and settle the dispute if both Transaction 1 and  
20 Transaction 2 were contingent upon Commission approval. From a timing perspective, because  
21 Transaction 2 had a 2016 delivery period, filing it through the advice letter process allowed sufficient  
22 time for the Commission to review Transaction 2 prior to its delivery period.<sup>6</sup> Therefore, SCE acted in  
23 the best interest of its customers by submitting Transaction 1 through the ERRA Review process, and  
24 Transaction 2 through the advice letter process.

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<sup>6</sup> Transaction 2 was filed and approved through Advice Letter 2977-E.

1           Additionally, SCE also clarifies that filing Transaction 1 through the ERRR Review process was  
2 appropriate due to the fact that the transaction was part of a global settlement of litigation over previous  
3 contracts, which falls appropriately into the ERRR Review process as a contract administration issue.

4   **D.   ORA’s Recommendation that ERRR Should Not Include Any Issues Requiring an After-**  
5   **the-Fact Reasonableness Review is Overbroad**

6           ORA recommends (without support) that the Commission order SCE not to include any issues  
7 requiring a reasonableness review in future ERRR compliance filings. This recommendation is  
8 overbroad and should be rejected. The annual ERRR review/compliance proceedings examine a number  
9 of issues with a variety of standards of review. In some cases, a “reasonableness review” is appropriate.  
10 For example, in this proceeding the presiding ALJ has already ruled that it was appropriate for SCE to  
11 include consideration of the Calpine Pastoria Power Purchase Agreement in this proceeding (discussed  
12 in Section IX of this rebuttal testimony). That issue required a “reasonableness review.”

1 IV.

2 **SCE RESPONSE TO ORA TESTIMONY ON CAISO-RELATED COSTS**

3 ORA's Testimony recommends that the Commission accept \$708.3 million in 2013  
4 Record Year costs SCE paid to the California Independent System Operator (CAISO) as  
5 "reasonable and compliance with SCE's LTPP." The \$708.3 million does not include \$466.7  
6 million in "2013 net SONGS costs." In various decisions, the Commission ordered SCE to defer  
7 consideration of the cost recovery of "2013 net SONGS costs" until the resolution of the SONGS  
8 OII (I.12-10-013). In D.14-11-040, the Commission approved a settlement resolving the  
9 SONGS OII. SCE will include the "2013 net SONGS costs" for review in its April 2015 ERRA  
10 review showing in accordance with the terms of the SONGS settlement and the requirements of  
11 D.14-11-040.

V.

**SCE DISAGREES WITH ORA’S RECOMMENDATION THAT SCE BE REQUIRED  
TO PROVIDE AN UPFRONT DEMONSTRATION OF GHG COMPLIANCE  
INSTRUMENT PROCUREMENT IN THE ERRA REVIEW PROCEEDING**

ORA recommends that SCE provide the following in future ERRA filings:<sup>7</sup>

1. “an upfront demonstration that SCE’s GHG compliance instrument procurement for the CARB Cap-and-Trade Regulation complied with D.12-04-046 and Resolution E-4542 in testimony.”
2. “testimony that discusses: (1) the quantity of GHG compliance instruments procured for the Record Year and whether this amount was within the authority of its BPP; (2) where and how SCE procured the GHG compliance instruments and whether these purchases were within the authority of its BPP.”
3. “appendices: (1) QCR GHG material; (2) PRG GHG material; and (3) a confidential copy of its BPP.”

SCE disagrees with ORA’s recommendations because it would result in a duplicative and inappropriate review process within ERRA. SCE already demonstrates compliance with its Assembly Bill (AB) Bundled Procurement Plan (BPP) and Commission procurement rules in its QCR filings. As directed by the Commission, through its QCR filings, SCE demonstrates that GHG compliance instruments comply with the upfront standards and criteria in SCE’s BPP. SCE’s 2010 BPP, as amended and approved in Resolution E-4542, incorporates the GHG compliance standards established in D.12-04-046. ORA appears to be requesting that SCE provide this demonstration twice: first in the QCR filings and then again in the annual ERRA review proceeding.

The Commission has already established that the QCR filings (and not the ERRA review proceeding) are the appropriate venue for demonstrating compliance with a utility’s BPP. D.02-10-062, further clarified and modified in D.03-06-076, D.03-12-062, D.04-12-048, and D.07-12-052, established QCRs as the vehicles by which the Commission reviews transactions undertaken pursuant to each utility’s procurement plan. D.04-12-048 (at 170) states: “The

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<sup>7</sup> ORA Testimony, p. 7-5 (lines 25-27) and p. 7-6 (lines 1-7).

1 objective of the [quarterly compliance] report is to show that the transactions entered into are in  
2 compliance with the upfront standards identified by the Commission.” Once the Energy Division  
3 Director approves the QCR, SCE’s transactions are deemed to be in compliance with its  
4 approved BPP and the related procurement costs are deemed recoverable through ERRA.<sup>8</sup>

5 D.12-04-046, which authorizes SCE to transact GHG-related products, established that  
6 GHG-related product transactions must be reported in SCE’s QCR filings, similar to other  
7 authorized products, while the costs are recorded in ERRA.<sup>9</sup> Requiring a second compliance  
8 demonstration for GHG products within ERRA would be duplicative and inconsistent with the  
9 AB 57 framework and D.12-04-046. Because SCE and other Investor-Owned Utilities (IOUs)  
10 do not receive any direct shareholder earnings for performing this bundled procurement function,  
11 AB 57’s cost recovery framework provides assurances to the IOUs that they can effectively  
12 procure power “without undue regulatory uncertainties,”<sup>10</sup> and receive timely cost recovery for  
13 the resulting costs of the purchased power.

14 The Commission is currently undergoing a review of the QCR template within Phase 2 of  
15 the 2014 Long-Term Procurement Plan proceeding.<sup>11</sup> To the extent ORA is not satisfied with the  
16 GHG procurement information provided in the QCR process, SCE is willing to work with ORA  
17 within the LTPP forum to assure QCR filings contain sufficient information to demonstrate that  
18 SCE’s GHG procurement activities conform to the upfront standards in SCE’s BPP that were  
19 approved in D.12-04-046.

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<sup>8</sup> Appendix to D.10-07-049.

<sup>9</sup> See D.12-04-046, at 57 and Ordering Paragraphs (OP) 8 and 10.

<sup>10</sup> D.02-10-062, at 10.

<sup>11</sup> See D.14-02-040, OP 4.

1 VI.

2 **SCE's APPLICATION AND SUPPORTING INFORMATION DEMONSTRATE THAT**  
3 **UTILITY OWNED GENERATION OPERATIONS WERE FULLY PRUDENT, AND**  
4 **ORA PRESENTS NO CONTRARY FINDINGS OR RECOMMENDATIONS**

5 ORA states that the utility-owned generation (UOG) "compliance review is to determine  
6 whether or not an IOU operated its generation facilities in a reasonable manner ... ." <sup>12</sup> ORA  
7 elaborates on this point, stating the review should have "an emphasis on outage avoidance and  
8 mitigation ... ." <sup>13</sup> Consistent with past ERRA proceedings, SCE agrees that UOG operations are  
9 relevant to the ERRA compliance review process, to the extent UOG outages can (but do not  
10 always) result in costs for procured energy to "replace" energy which, during the course of the  
11 UOG outage, might otherwise have been generated by the UOG resource that incurred the  
12 outage. In addition, certain UOG plants incur fuel costs that are also reviewed in ERRA.

13 ORA then explains it conducted this review, stating "ORA reviewed utility generation  
14 outage analysis and supporting information ... ." <sup>14</sup> ORA does not identify any instances in  
15 which SCE UOG operations were allegedly imprudent or unreasonable. Regarding the Palo  
16 Verde Nuclear Generating Station (which SCE co-owns with other utilities, but does not operate)  
17 ORA specifically concludes that it found "[n]o specific imprudence ... ." <sup>15</sup>

18 ORA discusses SCE's burden of proof to demonstrate the reasonableness of UOG  
19 operations, and opines that SCE has the obligation to "ensure its Application is self-contained." <sup>16</sup>  
20 ORA does not appear to find any deficiencies in SCE's application, and ORA does not dispute  
21 that SCE met its burden of proof. SCE's Application and supporting testimony are fully  
22 complete, and SCE met its burden of proof that its 2013 UOG operations were reasonable.

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<sup>12</sup> ORA Testimony, p. 8-1, lines 5-7.

<sup>13</sup> ORA Testimony, p. 8-1, line 19.

<sup>14</sup> ORA Testimony, p. 8-1, lines 20-21.

<sup>15</sup> ORA Testimony, p. 9-6, line 3.

<sup>16</sup> ORA Testimony, p. 8-2, lines 11-12.

1 Accordingly fuel and procurement costs recorded to ERRA and associated with UOG operations  
2 should be approved for full recovery, and the Commission should confirm that SCE operated its  
3 UOG resources in a reasonable manner during 2013.

4 **A. SCE Disagrees with ORA’s Proposed Method for Computing UOG Outage**  
5 **Replacement Power Costs**

6 ORA finds “no specific imprudence” in SCE’s nuclear generation operations, and makes  
7 no recommendations of findings of unreasonableness or imprudence for SCE-owned gas, hydro  
8 and solar generating resources.<sup>17</sup> ORA nevertheless proposes a methodology for calculating  
9 replacement power costs associated with UOG outages.<sup>18</sup> Further, ORA recommends that if an  
10 agreement cannot be reached, the Commission should hold workshops on the subject to  
11 determine an appropriate methodology for calculating UOG replacement power costs.

12 ORA’s recommendation is unnecessary and should be rejected, given there are no  
13 outages for the Record Period identified for which a replacement power cost calculation is  
14 needed. Developing multiple pre-defined formulae is simply not necessary to reach a decision in  
15 either this or future ERRA proceedings. SCE also notes that pre-defined formulas were not  
16 necessary to conduct UOG outage reviews in past ERRA proceedings. The Commission has  
17 been able to reach its decision on a dollar value for replacement power-based disallowances in  
18 the very rare instances that an SCE UOG outage was actually deemed unreasonable (*i.e.*, for the  
19 three SCE outages that the Commission concluded were unreasonable over the past decade of  
20 ERRA proceedings).

21 SCE acknowledges that, with enough time and effort, multiple pre-defined formulae  
22 could be developed for several outage variations. However, regardless of the effort expended, it

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<sup>17</sup> ORA Testimony, p. 9-6, line 3.

<sup>18</sup> ORA Testimony (Confidential Version), pp. 8-2 thru 8-7

1 is impossible to predict the exact market conditions and circumstances applicable to future  
2 outages that the Commission might find unreasonable.<sup>19</sup>

3 SCE will certainly fully participate in workshops on the subject, if the Commission  
4 decides that such workshops are a worthwhile use of Commission and utility resources.  
5 However, regardless of any workshop outcomes, SCE believes that the potential applicability of  
6 any “replacement power” formulae that are considered will likely require reconsideration, based  
7 on the specific market conditions and other circumstances involved, if and when an outage is  
8 deemed unreasonable in the future.

9 SCE provides voluminous evidence in both testimony and MDR responses supporting the  
10 reasonableness operation of its UOG facilities. Producing additional data in testimony for each  
11 and every outage, for the sole purpose of computing replacement power costs before any  
12 imprudence is determined, would be unnecessarily burdensome. As in the past, during the  
13 course of its review, ORA can submit data requests to SCE for additional information ORA  
14 believes is appropriate, and can formulate a proposed disallowance amount for an outage its  
15 alleges was caused by utility imprudence. Consistent with past practice, the Commission should  
16 continue to allow SCE to provide and defend its own computations of the potential financial  
17 impact of any outage on SCE customers, should SCE disagree with ORA’s computation.

18 **B. Solar Photovoltaic Program (SPVP)**

19 In D.13-11-005, the Commission directed SCE to include testimony in its next ERRRA  
20 compliance filing that fully demonstrated that SCE effectively managed its SPVP generating  
21 units in order to achieve appropriate system performance for all commercial operations since the  
22 inception of the SPVP program.<sup>20</sup> SCE fulfilled this directive in its direct testimony.<sup>21</sup> SCE’s  
23 review addressed utility-owned SPVP performance and routine operations from 2008 through

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<sup>19</sup> ORA seems to agree with this point when it states that “replacement power costs are subject to change based on new CAISO market products and initiatives and may need to be updated in the future.” ORA Testimony, p. 8-7, lines 16-17.

<sup>20</sup> D.13-11-005, pg. 42.

<sup>21</sup> Exhibit SCE-1C, Chapters I-VII, pp. 97-114.



1 2013. This included discussion of factors affecting panel output; SPVP maintenance, including  
2 SCE's decision to discontinue a regular panel washing program; and the installation of Electrical  
3 Fault Protection Systems to improve site safety and improve plant reliability.

4 SCE discussed 2013 Record Period outage events and summarized, in a table, the number  
5 of forced and scheduled outages that impacted SPVP since inception of the program.<sup>22</sup> Further,  
6 SCE addressed SPVP performance since inception of the program and factors that influenced  
7 this performance.<sup>23</sup>

8 In its Report, ORA acknowledges that SCE requested the Commission to find that during  
9 the Record Year that SCE's "management of utility-retained generation" complied with  
10 applicable Commission decisions and resolutions, and that ORA's Report presented its analysis  
11 and recommendations associated with SCE's request.<sup>24</sup> ORA did not conclude that SCE's  
12 management of SPVP (utility-retained generation) was unreasonable. SCE's management of the  
13 SPVP program from its inception (and including its performance during the Record Period)  
14 should therefore be found reasonable.

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<sup>22</sup> Exhibit SCE-1C, Chapters I-VII, pp. 107-114.

<sup>23</sup> Exhibit SCE-1C, Chapters I-VII, pp. 107-108.

<sup>24</sup> ORA Testimony, p.1.

VII.

**SCE REBUTTAL TO ORA TESTIMONY REGARDING GHG ACCOUNTING ISSUES**

**A. SCE's Position/Relevant Background**

**1. 2013 Authorized GHG Accounting**

SCE's approved ratemaking in 2013 records both its greenhouse gas (GHG) compliance instrument costs and GHG allowance revenues on a cash basis. D.12-04-046 states that the costs incurred for GHG compliance instruments should be included in ERRA. The accounting definition of incurred costs includes a cost arising from cash paid out. Under U.S. Generally Accepted Accounting Principles (US GAAP), the recognition and measurement of emissions expense would follow the accounting model to which the company subscribes for emission allowances (*e.g.*, inventory or intangible). Regulated utilities follow the accounting guidance outlined in the FERC Chart of Accounts, which requires emissions expense to be recognized on a weighted average method of cost determination based on each month's emissions. SCE recognizes emission expense at the weighted average cost of allowances. It is important to note that the way that SCE records and tracks these costs and revenues from an accounting standpoint need not be identical to how it does so from a ratemaking standpoint (as recognized by the Commission in April 19, 1992 CPUC Comments on FERC Proposed Revisions to the Uniform System of Accounts (FERC Docket No. RM92-1-000)).

For the 2013 Record Period, SCE's treatment of GHG revenues and costs is in accordance with Commission decisions, SCE's tariffs, and applicable accounting rules. The ERRA balancing account is used for regulatory accounting purposes and the GHG allowance inventory account is used for financial accounting purposes. ERRA is a balance sheet account and SCE believes recording purchased compliance instruments in ERRA is appropriate under D.12-04-046. The GHG allowance inventory account represents certificates available for AB32 compliance. The regulatory asset (*i.e.*, ERRA) represents a receivable for the future cash collection from customers making SCE whole, and is offset by a regulatory liability, which represents the value of GHG compliance instruments not yet used in operations.

## 2. 2014 Authorized GHG Accounting

The February 19, 2014 Assigned Commissioner's and ALJ's Phase 2 Scoping Memo and Ruling (Scoping Memo) in A.13-08-002 asked the IOUs to propose accounting procedures and rules for reporting GHG costs, allowance revenues and compliance instruments inventory. In the March 25, 2014 Joint Utility Proposal prepared pursuant to the Scoping Memo, SCE explained that its treatment of GHG revenues and costs is in accordance with Commission decisions, SCE's tariffs, and applicable accounting rules (*e.g.*, US GAAP). SCE's approved ratemaking records both the GHG cost and the GHG revenue on a cash basis.

At the April 8, 2014 workshop to address the Joint Utility Proposal, ORA raised concerns regarding SCE's internal accounting of GHG costs for ratemaking purposes. SCE disagreed with ORA's analysis with respect to internal accounting for ratemaking purposes. Nevertheless, in the April 29, 2014 Revised Joint Utility Proposal, Workshop Summary, and Joint Stipulations, from 2014 going forward, SCE agreed to request cost recovery of its GHG compliance costs in the year the GHG emissions obligations were incurred, with interest for the cash outlay for its GHG procurement compliance costs. The emission expense and interest expense will be recorded to ERRA. This agreement conforms to ORA's recommendation here that the utilities use accrual basis accounting.

The Commission confirmed in its Phase 2 Decision (D.14-10-033), effective October 16, 2014, that SCE should switch to the accrual method beginning with 2014. The Phase 2 Decision also specified that since all utilities are now using the accrual method, there is no need to restate past years. Pursuant to the Phase 2 Decision, SCE will use the accrual method for 2014 and make a one-time adjustment for prior years. Making this adjustment through the ERRA process will be sufficiently transparent for parties to understand past compliance costs.<sup>25</sup>

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<sup>25</sup> D.14-10-033, pp. 39 – 40.

1 a) ORA's Position

2 Regarding GHG cost accounting, ORA recommends the Commission require SCE to  
3 implement the following:<sup>26</sup>

4 1. Accrual basis accounting.

5 2. Update/Correct inaccurate accounting books and records pertaining to GHG costs and  
6 inventory, through December 31, 2014.

7 3. Update/Correct all applicable balancing, memorandum, and other related balance sheet  
8 accounts.

9 4. Discontinue use of the following inappropriate accounts:

- 10 • 2451035 - GHG Regulatory Liability.
- 11 • 4601010 – Provision

12 ORA claims that SCE's GHG-related balance sheet accounts as of December 31, 2013  
13 were not accurate, not reliable, and not presented in accordance with accrual basis accounting  
14 and US GAAP.<sup>27</sup> ORA also states that SCE did not follow US GAAP during the Record Year in  
15 the recording of GHG compliance instrument inventory and costs, and did not properly account  
16 for GHG compliance costs and compliance instrument inventory. Instead, ORA asserts that SCE  
17 inappropriately accounted for GHG costs on a cash basis instead of the required accrual method.

18 ORA recommends that the Commission require SCE to update the ERRA and all other  
19 GHG-related balance sheet accounts no later than December 31, 2014 to reflect the results that  
20 would have occurred if accrual basis accounting (instead of cash basis accounting) had been in  
21 effect since 2012.<sup>28</sup>

22 b) SCE Rebuttal

23 As discussed above, for 2013, SCE's approved ratemaking recorded both the GHG direct  
24 costs and GHG allowance revenues on a cash basis. Pursuant to D.12-04-046, SCE has recorded

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<sup>26</sup> ORA Testimony, p. 10-24.

<sup>27</sup> ORA Testimony, p. 10-5.

<sup>28</sup> ORA Testimony, p. 10-12.

1 compliance instrument purchases in ERRA on a cash basis. In Phase II of A.13-08-002, SCE  
2 agreed, from 2014 *going forward*, that cost recovery of direct GHG costs will be based on GHG  
3 compliance costs in the year the GHG emission obligations were incurred, with interest for cash  
4 outlays to meet GHG procurement compliance costs. The emission expense and interest expense  
5 will be recorded in the ERRA. This accounting change from a cash to an accrual basis was  
6 adopted in D.14-10-033, effective October 16, 2014. The Phase 2 Decision clearly stated that  
7 “SCE shall use the accrual method for 2014 and shall make a one-time adjustment for prior  
8 years.”

9 In light of the Phase 2 Decision adopting the accrual method of accounting for GHG  
10 compliance instrument costs, ORA’s recommendation requiring SCE to update the ERRA and all  
11 other related balance sheet accounts no later than December 31, 2014 is now moot. In fact, in  
12 November 2014, after receipt of the October 16, 2014 Phase 2 Decision, SCE did exactly that:  
13 SCE switched to the accrual method for 2014 and made a one-time adjustment for prior years.<sup>29</sup>  
14 In addition SCE discontinued the use of the 2451035 - GHG Regulatory Liability and 4601010 –  
15 Provision accounts since they are no longer necessary under accrual accounting.<sup>30</sup>

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<sup>29</sup> The ERRA entries associated with these changes will be included in SCE’s 2014 Record Period  
ERRA Review application to be filed April 1, 2015.

<sup>30</sup> ORA’s Testimony (at p. 10-12) also recommends that the Commission require SCE to initially record  
GHG compliance instrument procurement costs to a GHG Allowance (Compliance Instrument)  
Inventory account only and not directly to the ERRA account. SCE currently does this, and will  
continue to do so.

VIII.

**SCE REBUTTAL TESTIMONY IN RESPONSE TO ORA TESTIMONY REGARDING  
COMPLIANCE AUDIT OF THE ERRA AND OTHER BALANCING AND  
MEMORANDUM ACCOUNTS**

In Chapter 10 of its Testimony, ORA recommends that the Commission order SCE to exercise more diligence and due care to ensure the accuracy and completeness of future ERRa testimony and workpapers.<sup>31</sup> It is true that SCE's testimony required several errata (which is unsurprising given the voluminous size and scope of SCE's ERRa review filing). But it is important to note the difference between "errata" that are necessitated by errors, and "errata" that SCE submitted at ORA's request to provide information in a different format that was more preferable to ORA.

For example, ORA requested (and SCE provided) several "errata" relating to SCE's restated Balancing and Memorandum Account testimony tables presented in Chapter 12 of SCE's direct testimony and the recorded tables included in respective workpapers. Workpapers included both the "recorded" account spreadsheet data by month, in which amounts tied to the general ledger sheets, and the "restated" account spreadsheets by month as summarized and shown in the testimony tables. The tables provided in testimony were somewhat abbreviated and adjusted (*i.e.*, "restated") to include 2013-related entries that were recorded or corrected in the following Record Period (*i.e.*, 2014). Also, when there is more than one ERRa proceeding simultaneously under review by the CPUC, respective accounts' beginning balances are adjusted to exclude amounts that are not part of the Record Period in review. These accounts are then "restated" to accommodate this activity. Ending balances in these accounts, as shown in testimony, were automatically restated to capture the entries related specifically to the 2013

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<sup>31</sup> ORA Testimony at pp. 10-22 and 10-24.

1 Record Period activity.<sup>32</sup> This is consistent with what SCE has done in past ERRA Reviews  
2 proceedings, without any confusion or issue.

3 In the current proceeding, however, ORA requested SCE to submit “errata” on this  
4 issue.<sup>33</sup> To prevent such misunderstandings and confusion in the future concerning what  
5 constitutes the beginning and ending balances in various accounts in the ERRA review  
6 proceeding, going forward SCE will include the recorded beginning and ending balances in  
7 testimony for the Record Period in review. The testimony tables will provide more detail such as  
8 beginning-of-month entries transferring the ending balance from the previous year from one  
9 account to another account. The “adjusted beginning balance” result is the same, but there will  
10 be more visibility of transfer activity provided in the testimony table. The accounts will not be  
11 restated and will present entries and adjustments that occurred during the Record Period, even if  
12 those entries and adjustments occurred outside of the Record Period in review. In accounts  
13 where a prior period amount is still under review, SCE will footnote the amount and Record  
14 Period activity that is pending.

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<sup>32</sup> A notation of the exclusion for a prior period is footnoted under the respective table in testimony.  
(See Exhibit SCE-2, p. 187, Table XII-47; p. 193, Table XII-51; and p. 223, Table XIV-64.)

<sup>33</sup> ORA requested that SCE submit errata in its data requests under 22.5 and 23.5, even after SCE  
provided explanations in respective responses to ORA data requests 16.5 and 20.5.

IX.

**SCE REBUTTAL TESTIMONY IN RESPONSE TO ORA TESTIMONY REGARDING  
CALPINE PASTORIA POWER PURCHASE AGREEMENT ISSUES**

**A. Executive Summary**

SCE submits this testimony in response to Chapter 11 of ORA’s Testimony with respect to SCE’s request that CPUC approve the power purchase agreement<sup>34</sup> with Calpine Energy Services, L.P. (Calpine Pastoria PPA) executed out of SCE’s 2011 “All-Source” Request For Offers (RFO).

ORA recommends that the Commission “accept [the] SCE Calpine Pastoria Power Purchase Agreement as is . . .”<sup>35</sup> because it is in compliance with Decision (D.) 04-12-048.<sup>36</sup> ORA “commends SCE for coming forward with the [greenhouse gas (GHG)]-error information . . . ,”<sup>37</sup> but ultimately concludes that “SCE was under no obligation, in accordance with D.04-12-048, to consider GHG costs for the RFO because the term for each of the two contracts is less than five years. . . .”<sup>38</sup> ORA further reasons that “SCE’s intent to include GHG costs for the 2011 RFO solicitation was a good gesture, but not required under D.04-12-048.”<sup>39</sup> SCE agrees with ORA’s conclusion and appreciates ORA’s careful consideration of D.04-12-048’s requirements and the same standard under SCE’s 2006 Conformed Assembly Bill (AB) 57

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<sup>34</sup> The power purchase agreement collectively refers to: (1) the 2011 RA Capacity Master Power Purchase and Sale Agreement Confirmation Letter Between Calpine Energy Services, L.P. and Southern California Edison Company, and (2) the Energy Only UC Toll Master Power Purchase and Sale Agreement Confirmation Letter Between Calpine Energy Services, L.P. and Southern California Edison Company. The power purchase agreement was provided in Confidential Appendix A to Exhibit SCE-8C.

<sup>35</sup> ORA Testimony at p. 11-1, lines 4-5.

<sup>36</sup> *Id.* at p. 11-8, lines 7-8.

<sup>37</sup> *Id.* at p. 11-8, line 4.

<sup>38</sup> *Id.* at p. 11-3, lines 16-18.

<sup>39</sup> *Id.* at p. 11-5, lines 3-4. *See also id.* at p. 11-4, lines 9-11 (“Application of the GHG adder was not required for contracts less than five years in duration, which is the same standard adopted in D.04-12-048 regarding requirements for Commission pre-approval via the AB 57 framework.”).



1 Bundled Procurement Plan (BPP).<sup>40</sup> Accordingly, SCE respectfully requests that the  
2 Commission approve the Calpine Pastoria PPA as a conforming contract under SCE's AB 57  
3 standards and conclude that the costs are fully recoverable in ERRA.

4 Additionally, ORA recommends several corrective measures to mitigate the potential for  
5 future errors similar to the inadvertent exclusion of GHG costs from the 2011 All-Source RFO's  
6 valuation and selection process.<sup>41</sup> SCE finds merit in some of ORA's proposals that have not yet  
7 been implemented. SCE agrees that the Independent Evaluator (IE) can be an important resource  
8 in helping identify potential errors in SCE's valuation and selection systems, and recommends  
9 retaining an IE to perform a parallel analysis for solicitations that will employ sophisticated  
10 valuation analyses. To facilitate this recommendation, SCE will seek to select at least two IEs  
11 with the ability to provide reasonably robust parallel valuation analysis for its IE pools, which  
12 must ultimately be approved by the CPUC's Energy Division. SCE will then identify for its  
13 Procurement Review Group (PRG) those solicitations for which an IE with parallel valuation  
14 capabilities is required.

15 Finally, ORA suggests that the Commission order SCE to not include issues requiring a  
16 reasonableness review in ERRA review proceedings.<sup>42</sup> The Administrative Law Judge (ALJ)  
17 has already ruled against this suggestion in denying ORA's protest of SCE's Amended  
18 Application of SCE's 2013 Record Period ERRA Review Application (Amended Application).<sup>43</sup>  
19 SCE encourages the Commission to refrain from adopting such an overly restrictive measure and  
20 continue to assess the appropriate forum for any future reasonableness issues on a case-by-case  
21 basis.

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<sup>40</sup> A detailed explanation of these requirements is provided in Exhibit ORA-1C, at pp. 11-3 to 11-5 and Exhibit SCE-8C, at p. 7, n.11.

<sup>41</sup> ORA Testimony at p. 11-8, lines 12-16.

<sup>42</sup> *Id.* at p. 11-1, lines 10-11.

<sup>43</sup> See Administrative Law Judge Wilson's e-mail ruling (ALJ Ruling), dated Aug. 27, 2014.

1 **B. SCE Agrees With ORA’s Recommended Corrective Measures**

2 In addition to recommending that the Commission accept SCE’s Calpine Pastoria PPA,  
3 ORA recommends that the Commission order SCE to: (1) institute a quality control/quality  
4 assurance program on software reliability; (2) review its IE selection process; and (3) institute a  
5 plan on how to mitigate contractual mistakes.<sup>44</sup> SCE finds merit in these proposals as prudent  
6 measures to mitigate the likelihood of future errors similar to the inadvertent coding error that  
7 led to the exclusion of GHG costs from the tolling offers in the 2011 All-Source RFO. SCE has  
8 already implemented additional controls to address the potential for errors in the valuation and  
9 selection process for SCE’s solicitations since the 2011 All-Source RFO. SCE details some of  
10 those existing measures below and recommends some additional measures that it will implement  
11 as a result of ORA’s proposal.

12 **C. SCE’s Additional Testing Process and Controls Incorporated Since the 2011 All-**  
13 **Source RFO**

14 As acknowledged by ORA, “[d]espite the numerous controls involving significant  
15 oversight of the valuation process by SCE’s procurement personnel and review by independent  
16 third parties, the programming error [in the 2011 All-Source RFO] was not detected.”<sup>45</sup> The  
17 nature of the error as a coding issue was not one that would be obvious to a reasonable manager  
18 when deciding to select the Calpine Pastoria PPA. SCE’s testing for this complex valuation and  
19 selection process was robust, but did not detect the coding error because it inadvertently occurred  
20 subsequent to the completion of SCE’s testing and validation of its “EVAL” valuation and  
21 selection systems.<sup>46</sup>

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<sup>44</sup> ORA Testimony at p. 11-1, lines 6-9.

<sup>45</sup> *Id.* at p. 11-6, lines 27-29.

<sup>46</sup> Exhibit SCE-8C, at p. 30, lines 1-4. EVAL is a proprietary system that SCE built and maintains which SCE uses, among other purposes, to perform valuation activity for its energy procurement solicitations.

1           ORA's testimony suggests that SCE should identify preventive actions that would  
2           "include steps to preclude such occurrences of software error from happening again. . . ."47

3           Learning from this error, SCE has previously implemented additional testing and controls to  
4           prevent a similar coding error in subsequent solicitations. These measures, which are detailed  
5           further below, are also part of SCE's ongoing commitment to continuous improvement.

6           As described in SCE's direct testimony,<sup>48</sup> it should first be emphasized that SCE already  
7           has significant testing and controls in place due to the complexity involved in SCE's valuation  
8           and selection process.<sup>49</sup> SCE conducts numerous manual and automated tests to verify that the  
9           valuation and selection systems perform as intended. Controls also exist at multiple points in the  
10          process to support proper transmittal and accuracy of the valuation and selection results.  
11          Additionally, there are numerous points of oversight by multiple internal review teams and  
12          external, independent advisors. The review teams are involved (1) when improvements are made  
13          to the valuation and selection process and (2) during an RFO's valuation and selection process.  
14          These teams include SCE's energy procurement valuation team, SCE's energy contracting team,  
15          SCE's risk analytics team charged with providing internal, independent oversight from SCE's  
16          energy procurement team's analytics and processes in RFOs, and the IE. SCE also provides a  
17          summary of its valuation and selection system improvements to its PRG, and responds to any  
18          follow-up inquiry the PRG has on SCE's valuation and selection systems and processes.

19          As described in detail in SCE's opening testimony, the 2011 All-Source RFO's valuation  
20          and selection process was tested and subject to such controls.<sup>50</sup> Therefore, SCE agrees with  
21          ORA's suggestion that given the unintended outcome of report modifications that led to selection

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<sup>47</sup> ORA Testimony at p. 11-5, lines 22-23.

<sup>48</sup> Exhibit SCE-8C, at pp. 15-17, 29-30.

<sup>49</sup> SCE's valuation and selection process has evolved over many years from a simple valuation and rank order selection process to a sophisticated Monte Carlo simulation-based valuation and mathematical optimization-based selection process. SCE continuously seeks to incorporate improvements and adapt to changing market environments to minimize customer costs.

<sup>50</sup> Exhibit SCE-8C, at pp. 15-17, 29-30.

1 of the Calpine Pastoria PPA, SCE's EVAL system would benefit from additional controls when  
2 any system modifications are made.

3 SCE has incorporated an additional validation step into its standard valuation process that  
4 compares a set of base case valuation results from ProSym to a set of base case valuation results  
5 developed from EVAL. This additional step ensures that there is consistency in data and results  
6 between two independent tools prior to running a full expected (Monte-Carlo) valuation analysis  
7 in the EVAL system.

#### 8 **D. SCE's Recommended Additional Measures to Mitigate Future Mistakes**

9 In addition to the measures SCE has implemented upon discovering the EVAL system's  
10 programming error and the impact on SCE's 2011 All-Source RFO, SCE finds merit in the  
11 specific suggestions offered in ORA's testimony to enhance the accuracy of SCE's valuation  
12 systems.<sup>51</sup> SCE discusses each of ORA's suggestions below.

##### 13 **1. Software Reliability**

14 ORA proposes that, going forward, SCE "could modify its EVAL software to prevent  
15 anyone from using the program to perform any valuation calculation whenever there is a  
16 temporary software modification to a subprogram or subroutine."<sup>52</sup> As discussed above, SCE  
17 will not release a software update until a series of tests have been performed and approved. SCE  
18 has focused its efforts on expanding these testing processes to capture more scenarios in order to  
19 prevent similar issues from arising.

##### 20 **2. IE Selection Process**

21 ORA also recommends that SCE describe "how it could improve on its IE selection  
22 process so that SCE can distinguish more effective candidates from less proficient ones."<sup>53</sup> ORA  
23 is correct that "the IE that SCE selected did not also discover the mistake."<sup>54</sup> As noted by SCE

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<sup>51</sup> ORA Testimony at pp. 11-5 to 11-7.

<sup>52</sup> *Id.* at pp. 11-5, line 24 to 11-6, line 1-2.

<sup>53</sup> *Id.* at p. 11-7, lines 2-4.

<sup>54</sup> *Id.* at p. 11-7, lines 1-2.

1 to its PRG on May 23, 2014, the IE for the 2011 All-Source RFO was new and SCE dedicated  
2 extensive time educating the IE on SCE's valuation and selection processes. Additionally, the IE  
3 utilized did not run a parallel valuation process that probably would have highlighted that a  
4 coding error had been introduced into SCE's valuation and selection systems. However, the IE  
5 did oversee SCE's initial testing and validation of its valuation and selection systems, and  
6 therefore had no reason to believe that a subsequent coding error had been introduced into SCE's  
7 systems.

8 Because a coding error did occur and a parallel IE valuation process would have likely  
9 identified the valuation discrepancy, SCE concurs with ORA's suggestion to improve its IE  
10 selection process to ensure more effective oversight. For solicitations that will employ  
11 sophisticated valuation analyses, SCE proposes that the retained IE should be required to  
12 perform a parallel analysis of sufficient rigor to reasonably identify potential errors in SCE's  
13 valuation and selection systems. It is important to note that valuation results can differ as a result  
14 of different analytic approaches, and such differences will not necessarily indicate that one of the  
15 approaches has errors. Instead, the differences can serve as a valuable check to ensure that they  
16 can be explained by differing analytic approaches instead of inadvertent errors.

17 Because not all IEs have the capability to conduct a parallel valuation, SCE will identify  
18 for its PRG those solicitations for which an IE with parallel valuation capabilities is required. In  
19 addition to providing a valuable check on the accuracy of SCE's valuation systems, there is  
20 meaningful benefit in using an IE with a high level of technical expertise with complex  
21 procurement efforts where the IE can be an analytic thought partner.

22 SCE's current IE pool selection process is a joint effort with its PRG and involves  
23 background checks and a technical interview process. SCE will ensure that it recommends at  
24 least two IEs with the ability to provide reasonably robust parallel valuation analysis for its IE  
25 pools, which must ultimately be approved by the CPUC's Energy Division.

### 3. Contract Provisions

ORA further recommends that when drafting new contracts, “SCE should consider language provisions to provide the ability to terminate or renegotiate” when a similar mistake is discovered.<sup>55</sup> SCE appreciates ORA’s good faith attempt to explore contractual flexibility to address future errors. However, such a provision is not commercially feasible with contractual counterparties. Counterparties cannot accept the risk that their contracts can be terminated or amended because SCE made a mistake in its valuation and selection process. Instead, SCE believes that the measures previously described above are better able to mitigate future errors and are feasible to implement.

### 4. Reasonable Manager Standard

SCE agrees with ORA that corrective actions were necessary because such software mistakes can have significant impacts for SCE’s customers. SCE understands that it is subject to a standard of reasonable conduct in performing the energy procurement function and takes this responsibility very seriously. However, SCE cautions that, even with these corrective measures, there can still be future errors associated with SCE’s bundled procurement activities that cannot be reasonably anticipated. The circumstances for an error can vary widely and the Commission should not hold IOUs to a 100% error-free standard in conducting procurement for their bundled customers (from which the IOUs do not receive any direct shareholder earnings). If the Commission were to impose a “strict liability” standard, it is likely to adversely affect how IOUs perform their energy procurement function by causing them to become overly risk adverse and unduly conservative, which could in the long-run increase power procurement costs for IOUs’ customers. This is particularly true when the procurement activity involves the development and implementation of highly complex valuation methodologies and tools, such as for SCE’s All-Source RFOs. Otherwise, an expectation of zero errors may discourage IOUs in the future from

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<sup>55</sup> *Id.* at p. 11-7, lines 14-15.

1 pursuing innovative valuation methods designed to capture more value for its customers, such as  
2 taking steps to implement more sophisticated and detailed tools. Instead, an error-free standard  
3 may counter-productively incentivize IOUs to pursue simpler procurement efforts that would  
4 minimize the likelihood of a disallowance. Thus, the Commission should hold IOUs to the  
5 “reasonable manager” standard, which would include assessing if the IOU’s managers provided  
6 prudent oversight and controls.<sup>56</sup>

7 **E. ORA’s Recommendation Regarding Erra Reasonableness Reviews Has Already**  
8 **Been Denied**

9 Finally, ORA suggests that the Commission order SCE to not include issues requiring a  
10 reasonableness review in Erra review proceedings.<sup>57</sup> The ALJ has already ruled against this  
11 suggestion in denying ORA’s protest of SCE’s Amended Application.<sup>58</sup> SCE advises the  
12 Commission to continue to assess the appropriate forum for any future reasonableness issues on  
13 a case-by-case basis rather than adopting ORA’s overly restrictive limitation on Erra  
14 reasonableness reviews.

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<sup>56</sup> Indeed, there is a long history of examples of where the Commission has utilized the “reasonable manager” standard. See D.10-07-049, at p. 13 n.6 (“[B]y the reasonable manager standard, utilities are held to a standard of reasonableness based upon the facts that are known or should have been known at the time.”); D.11-10-002, at p. 11 n.2 and n.3 (noting that the reasonable manager standard “has been in place for decades”) (citations and internal quotations omitted). “The act of the utility should comport with what a reasonable manager of sufficient education, training, experience, and skills using the tools and knowledge at his or her disposal would do when faced with a need to make a decision and act.” D.10-07-049, at p. 13 (citing D.09-09-088, 37 CPUC 2d 488, 499). Importantly, the reasonable manager standard is not a “perfect manager” standard and staff mistakes are not held to a strict liability standard. In D.90-09-088, the Commission confirmed that “[t]he reasonable and prudent act is not limited to the optimum act, but includes a spectrum of possible acts consistent with the utility system need, the interests of ratepayers, and the requirements of governmental agencies of competent jurisdiction.” D.90-09-088, 37 CPUC 2d 488, 499 (1990).

<sup>57</sup> ORA Testimony at p. 11-1, lines 10-11.

<sup>58</sup> See ALJ Ruling, dated Aug. 27, 2014 (“I appreciate ORA’s concern that the issue in question be addressed in the proper venue, but find that the language of D.02-10-062, Ordering Paragraph 12 (The respondent utilities shall file nonconforming transactions by expedited application.) does not limit the Commission to requiring a ‘separate’ application, but requires that the review occur in an application.”).

**Appendix A**  
**Witness Qualifications**



**SOUTHERN CALIFORNIA EDISON COMPANY**  
**QUALIFICATIONS AND PREPARED TESTIMONY**  
**OF COLIN E. CUSHNIE**

Q. Please state your name and business address for the record.

A. My name is Colin E. Cushnie, and my business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.

A. I am a Vice President, responsible for the Energy Procurement & Management department in the Power Supply organization. My department's responsibilities include power and natural gas contracting, energy contract administration, energy trading, and managing SCE's power scheduling and dispatch activities.

Q. Briefly describe your educational and professional background.

A. I earned a Bachelor of Arts Degree in both Economics and Business Administration from Whittier College in 1986. I was hired by SCE in January 1987 and held various positions related to the procurement of material, equipment, and services until October 1993. Since October 1993, I have held positions of increased responsibility related to SCE's natural gas and electrical energy planning, procurement, and regulatory advocacy and support. In my current position, I manage a staff of approximately one hundred energy professionals.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to sponsor portions of Exhibit No. SCE-13, entitled *Rebuttal Testimony of Southern California Edison Company*, as identified in the Tables of Contents thereto.

Q. Was this material prepared by you or under your supervision?

A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?

A. Yes, I do.

- 1 Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best  
2 judgment?
- 3 A. Yes, it does.
- 4 Q. Does this conclude your qualifications and prepared testimony?
- 5 A. Yes, it does.

**SOUTHERN CALIFORNIA EDISON COMPANY**  
**QUALIFICATIONS AND PREPARED TESTIMONY**  
**OF DOUGLAS A. TESSLER**

Q. Please state your name and business address for the record.

A. My name is Douglas A. Tessler, and my business address is 8631 Rush St, Rosemead, CA, 91770

Q. Briefly describe your present responsibilities at the Southern California Edison Company.

A. I am currently a Project Manager in the Revenue Requirements and Forecasting Department. I am primary responsible for participating in the development of the Operations and Maintenance (O&M) and Capital workpapers for all GRC and non-GRC CPUC Revenue Requirements.

Q. Briefly describe your educational and professional background.

A. I received a Bachelors of Science Degree in Accounting from California State Polytechnic University, Pomona in 1999 and Masters of Science Degree in Business Administration from California State University, Fullerton in 2006. I am also a Certified Public Accountant (inactive). I began my career at Southern California Edison in 1997 as an Accounting Assistant in the Property Accounting area of the Controller's Department. From 1999 to 2005 I worked in various accounting positions within the Controller's Department. In 2005 I moved to the Audit Services Department where I worked as a Corporate Auditor. In 2008 I transferred to the Investor Relations Department at Edison International (the parent and holding company of Southern California Edison) where I worked as a Senior Financial Analyst. I assumed my current position in 2010.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to sponsor Exhibit SCE-13, entitled *Rebuttal Testimony of Southern California Edison Company* as identified in the Table of Contents thereto.

Q. Was this material prepared by you or under your supervision?

1 A. Yes, it was.

2 Q. Insofar as this material is factual in nature, do you believe it to be correct?

3 A. Yes, I do.

4 Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best  
5 judgment?

6 A. Yes, it does.

7 Q. Does this conclude your qualifications and prepared testimony?

8 A. Yes, it does.

**SOUTHERN CALIFORNIA EDISON COMPANY**  
**QUALIFICATIONS AND PREPARED TESTIMONY**  
**OF THOMAS G. WARE**

Q. Please state your name and business address for the record.

A. My name is Thomas G. Ware, and my business address is 2244 Walnut Grove, Rosemead CA.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.

A. I am presently the Manager of Energy Compliance and Cost Recovery of the SCE Power Supply operating unit. Power Supply manages the procurement and dispatch of generation for SCE's customers, including fuel and greenhouse gas emissions compliance procurement, operations, maintenance and capital improvements of SCE-owned hydro, solar and gas-fueled power plants. My duties include oversight of most of the regulatory compliance processes and reporting associated with the procurement of generation, natural gas and greenhouse gas emissions compliance instruments. I also manage the SCE-owned fossil, solar and gas-fueled power plant portion of SCE's General Rate Case, ERRA and other cost recovery regulatory proceedings.

Q. Briefly describe your educational and professional background?

A. I received a Bachelor of Science degree in Chemical Engineering from the California State Polytechnic University at Pomona, and am a registered professional Mechanical Engineer in California. Prior to my current position, I held various management and engineering positions within Edison over approximately the past thirty years, primarily in the power generation area. These prior positions included Lead Engineer of the Alamos Generating Station, Production Manager of the Redondo Generating Station, Engineering

1 & Construction Manager of the Edison Pipeline & Terminal Company (a former division  
2 of SCE), and manager of the Operations Support and Performance Improvement division,  
3 and subsequently the Engineering division, of the Power Production Department.

4 Q. What is the purpose of your testimony in this proceeding?

5 A. The purpose of my testimony in this proceeding is to sponsor Exhibit SCE-13, entitled  
6 *Rebuttal Testimony of Southern California Edison Company* as identified in the Tables of  
7 Contents thereto.

8 Q. Was this material prepared by you or under your supervision?

9 A. Yes, it was.

10 Q. Insofar as this material is factual in nature, do you believe it to be correct?

11 A. Yes, I do.

12 Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best  
13 judgment?

14 A. Yes it does.

15 Q. Does this conclude your qualifications and prepared testimony?

16 A. Yes, it does.

**Exhibit C**

## **Results of SCE's 2013 ERRA UOG Outage Reporting Workshop**

### **Areas of agreement (and SCE to implement in its April 2015 ERRA review filing)**

1. For forced outages exceeding 24 hours, and for scheduled outage extensions that lasted more than one week past the scheduled end date for the outage (i.e., the end date that was scheduled when the outage began), where that forced outage or that scheduled outage extension affected a generating unit with a rated capacity exceeding 25 MW, or where that forced outage or planned outage extension affected multiple generating units at a given power plant having a combined capacity exceeding 25 MW, SCE will include outage reports (if available) in workpapers (including failure root cause analysis reports for equipment failures that precipitated the outage, where applicable and available). SCE will also include, in Testimony, a summary of the analysis contained in those reports as well as a complete list of the findings from those reports.
2. SCE will provide the NERC Event Code data for all outages incurred at power plants having a rated capacity exceeding 25 MW, in lieu of Master Data Request Questions 1.1.12.3 through 1.1.12.8 and 1.1.14.3 through 1.1.14.8 as SCE does not maintain all of the data required to answer these questions. SCE will also include a description of why SCE chose the particular NERC Event Code.
3. SCE will include a more detailed explanation (in testimony appendices) of the various kinds of outages used in the industry's NERC GADS reporting protocols (i.e., NERC GADS instructions via web link if available, and some simple examples if not available via the web link).
4. SCE will include (in testimony) a comparison (in tabular format) of the current and proceeding 5 years of historical Industry (if available) and SCE yearly EAF/FOF statistics for its gas-fired, hydro and nuclear UOG fleet.

### **Areas of future discussion (with potential implementation in future ERRA filings if agreement is reached)**

1. What SCE is required to provide in lieu of outage reports (or root cause reports) when such reports were not prepared as part of SCE's documentation of the outage.
2. Further discussion on how to provide whatever backup data ORA might want showing the computations SCE makes in producing the EAF/FOF analyses and other similar plant reliability metrics, given that these statistics are normally directly extracted from the NERC GADS data base computer program (which one must purchase, and is confidential such that users can only see the data they enter for their own fleet) that ORA seeks relative to the utility's response to MDR Q1.1.35.



3. Further discussion on any additional information (i.e., in addition to NERC Event Code information discussed above) that ORA seeks relative to the utility's response to MDR Q1.1.12.3 thru 1.1.12.8, and for 1.1.14.3 thru 1.1.14.8.
4. Discussion of potential cross-over issues from the LCD and UOG Outage workshops.

**Exhibit D**

# **Replacement Cost Formula Discussion Points**

August 14, 2015

# General Formula and Assumptions

## High Level Assumptions

- 1) Replacement energy costs are only relevant when SCE's portfolio is in a net short position.
- 2) The replacement energy cost calculation does not take into account any Real Time and Day Ahead market price differences, and instead simply uses the Day Ahead price.
  - SCE & ORA acknowledge that there are at least three valid "energy cost" prices:
    - Day Ahead price at the specific price node,
    - Day Ahead price at DLAP,
    - Day Ahead price at Trading Hub SP15.
- 3) Replacement energy costs will only be calculated for any MWh when the unit in a forced outage is not restricted to be dispatched by any other operational constraint or reliability constraint.
- 4) No Capacity CPM charges for forced outages, SCP charges are considered.
- 5) No CAISO replacement requirement charges are considered ( which are for planned outages)
- 6) Replacement Energy Costs are calculated differently per the unit characteristics

## General Formula

Total Replacement Costs = Replacement Energy Costs + Substitution Costs  
attributed to the Resource

# Replacement Energy Costs- Base Load Resources

Base Load Resources include: Nuclear resources and UOG Renewable resources (i.e., SPVP rooftop solar)

## Formula

- Total Replacement Costs = Replacement Energy Costs + Substitution Costs attributed to the Resource
- Replacement Energy Costs= ((Total Forced Outage MWh - Planned outage MWh) \*Ownership Share \* Market Energy Price - Avoided Costs if any)
- Substitution Costs= Total monthly SCP Charges by resource

## Assumptions

# Replacement Energy Cost- Constrained Resources

Operational-constrained resources include: UOG Peakers and UOG Hydro

- **Formula**

- Total Replacement Costs = Replacement Energy Costs + Substitution Costs attributed to the Resource
- Replacement Energy Costs = ((Total **Adjusted** Forced Outage MWh - Planned Outage MWh) \* Market Energy Price - Avoided Fuel Costs if any - Avoided VOM Costs if any - Avoided emission Costs if any)
- Substitution Costs = Total monthly SCP Charges by resource

- **Assumptions**

- 1) Replacement energy cost will only be calculated for the MWh when the unit with forced outage is not restricted to run by any other operational constraint, reliability constraint or physical water condition.
- 2) Total Forced Outage MWh will be **adjusted down** if the opportunity energy revenue from the forced outage hours is greater than 0. As long as energy revenue from more optimal hours can make up for the loss of energy revenue during the forced outage hours, the forced outage MWh will be adjusted down partially or fully with the energy produced in the more optimal hours.
- 3) Replacement energy cost will only be calculated for the economic MWh (when the unit experiencing the forced outage is more economic than the market).
- 4) No Capacity CPM charges for forced outages, SCP charges are considered.
- 5) No CAISO replacement requirement charges are considered (which are for planned outages).

# Replacement Energy Cost – Conventional Gas-Fired Resources

Resources include: UOG dispatchable gas-fired units (i.e., Mountainview Generating Station)

- **Formula**

- Total Replacement Costs = Replacement Energy Costs + Substitution Costs attributed to the Resource
- Replacement Energy Costs = ((Total Forced Outage MWh - Planned Outage MWh) \* Market Energy Price - Avoided Fuel Costs if any - Avoided VOM Costs if any - Avoided emission Costs if any)
- Substitution Costs = Total monthly SCP Charges by resource

- **Assumptions**

- 1) Replacement energy cost will only be calculated for the MWh (when the unit experiencing the forced outage is not restricted to run by any other operational or reliability constraint).
- 2) Replacement energy cost will only be calculated for any economic MWh (when the unit or portion thereof on the forced outage is more economic than the market).
- 3) No Capacity CPM charges for forced outages, SCP charges are considered.
- 4) No CAISO replacement requirement charges are considered ( which are for planned outages)

# Back-Up



# ABC Peaker Example

Assume ABC is forced out on 06/01/2015 Hour Ending 1 for 50MW

Scenario Name	Unit Name	AQMD Annual Limit (Hrs)	Yearly Usage (Hrs)	Adjustment to Forced Outage MWh	Final Adjusted forced MWh
A	ABC_PEAKE	1000	970	30 if more optimum hours found at a later time.	20
B	ABC_PEAKE	1000	970	0 if no optimum hours found at a later time.	50
C	ABC_PEAKE	1000	1000	50	0

Date	Hour Ending	Unit	Outage MW	Net Position Impact (MW)				Short Position		
				Before Trading Position (MWh)	Unit Full Availability without forced outage (MW)	Optimum Energy Revenue MWh	Position Assuming Full Availability (MWh)	Short Position Attributable to Forced Outage (MWh)	Short Position Made up for by more optimum hours (MWh)	Total Short Position Attributable to Unit (MWh)
6/1/2015	1	ABC_PEA	50	2,835	50	30	2,815	20	0	20

Market Prices			Avoided Fuel Burn		Avoided VOM	Avoided Fuel and		Replacement Energy Costs to		
Daily Index price for Socal City Gate (ICE Index)	Daily Index price for SP15 TH (CAISO DAH LMP)	Daily Index price for GHG	Avoided Non Start Generation Fuel Burn	Start Fuel Burn		Avoided Fuel Costs (\$)	Total Avoided Fuel Costs W Emission costs (\$)	Replacement Energy costs	Adjustment due to opportunity optimum running hours	Total Replacement Energy Costs to Cover Short Position Due to Forced Outage (\$)
\$ 3.31	\$ 50.00	\$ 12.47	500.50	80.00	\$ 400.00	1,921	\$ 1,922	\$ 178	\$ 107.06	\$ 71

# Substitution Example

SCE Jan-15 SCP CPM Charges				
	CPM	SCP	Resource ID	Substitution Charge by resource ID
1-Jan		\$135,011	ABC_PEAKE	\$135,011.1600
		SCP Availability Factor	95.36%	
		RA Supply Plan (MW)	100	
		Actual Supply (MW)	70	
		Administrative Price for RA of the month \$	5906	
		Lower Bound Obligation	92.86	
		Obligation Subject to Penalty	22.86	
		SCP Charges	\$ 135,011.16	